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Report No. 120680-MG

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED DEVELOPMENT POLICY GRANT

IN THE AMOUNT OF SDR 31.9 MILLION  
(US\$45.0 MILLION EQUIVALENT)

TO THE REPUBLIC OF MADAGASCAR

FOR AN

INCLUSIVE AND RESILIENT GROWTH DEVELOPMENT POLICY OPERATION

November 8, 2017

Finance and Markets Global Practice  
Africa Region

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## THE REPUBLIC OF MADAGASCAR

### GOVERNMENT FISCAL YEAR

January 1 – December 31

### CURRENCY EQUIVALENT

(Exchange Rate Effective as of September 30, 2017)

Currency Unit = MGA

US\$1 = SDR 0.70756386

### ABBREVIATIONS AND ACRONYMS

ADER	<i>Agence de Développement d'Electrification Rurale</i> (Agency for the development of rural electrification)
AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
CASEF	Madagascar Agriculture Rural Growth and Land Project PPRManagement Project
CBM	Central Bank of Madagascar
CPF	Country Partnership Framework
CSBF	<i>Commission de Supervision Bancaire et Financière</i> (Commission for Banking and Financial)
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
EDP	Economic Development Paper
EME	<i>Etablissements de monnaie électronique</i>
EMI	Electronic money institution
ESIA	Environmental and Social Impact Assessment
EU	European Union
FER	<i>Fonds d'Entretien Routier</i> (Road Maintenance Fund)
FSAP	Financial Sector Assessment Program
FY	Fiscal Year
GDP	Gross Domestic Product
GIZ	<i>Deutsche Gesellschaft für Internationale Zusammenarbeit</i>
GRS	Grievance Redress Service
ID	Identification Document
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IMF	International Monetary Fund
JIRAMA	State-Owned Electricity and Water Company
MECIE	Development of Investment Compatibility with the Environment
MFI	Microfinance Institution
MGA	Malagasy Ariary
MPSPPW	Ministry of Population, Social Protection and Promotion of Women
NDP	National Development Plan
NEP	New Energy Policy
NES	National Electrification Strategy
NGO	Non-Governmental Organization
NOE	National Office of Environment
PCB	Private Credit Bureau
PCR	Public Credit Registry
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management

PPP	Public Private Partnership
PSIA	Poverty and Social Impact Analysis
PV	Present value
RCF	Rapid Credit Facility
SCD	Systematic Country Diagnostic
SDR	Special Drawing Rights
SOE	State-Owned Enterprise
TA	Technical Assistance
TF	Trust Fund
UNICEF	United Nations Children's Fund
US\$	United States Dollar
WB	World Bank

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THE REPUBLIC OF MADAGASCAR

INCLUSIVE AND RESILIENT GROWTH DEVELOPMENT POLICY OPERATION

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## SUMMARY OF PROPOSED GRANT AND PROGRAM

THE REPUBLIC OF MADAGASCAR

### INCLUSIVE AND RESILIENT GROWTH DEVELOPMENT POLICY OPERATION

Borrower	Republic of Madagascar
Implementation Agency	Ministry of Finance and Budget
Financing Data	Standard IDA grant: SDR 31.9 million (US\$45.0 million equivalent)
Operation Type	First in a programmatic series of two operations; single tranche
Pillars of the Operation and Program Development Objective(s)	The program development objective of this programmatic operation is to tackle the micro-foundations of inclusive and resilient growth by (i) strengthening the resilience of individuals against shocks and (ii) creating an enabling environment for economic opportunities in rural communities.
Result Indicators: (Baseline: 2016 unless otherwise noted; Target 2019)	<p><b>PILLAR 1: Strengthening the resilience of individuals against shocks</b></p> <ul style="list-style-type: none"> <li>- Establishment of a centralized system for the monitoring of new birth registrations;</li> <li>- Number of households registered in the national social registry;</li> <li>- Volume of transactions on e-money accounts (millions);</li> <li>- Number of private credit bureaus licensed;</li> </ul> <p><b>PILLAR 2: Creating an enabling environment for economic opportunities in rural communities</b></p> <ul style="list-style-type: none"> <li>- Number of land certificates issued;</li> <li>- Equalization fund (Fond de Péréquation) executes transfers to the local governments (% of planned in the FY);</li> <li>- Expenditure of the Road Maintenance Fund (Fonds d'Entretien Routier – FER) on communal road maintenance (% of total expenditure);</li> <li>- Number of electricity production concessions and authorizations issued per year for rural areas;</li> </ul>
Overall risk rating	Substantial
Climate and disaster risks	<p>Are there short and long term climate and disaster risks relevant to the operation (as identified as part of the SORT environmental and social risk rating)?</p> <p style="text-align: center;">Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <p>Madagascar is highly vulnerable to natural disasters including cyclones, flooding and droughts. These disasters have adverse impact on agriculture, the main source of income for rural population, on access to road infrastructure and on hydraulic electricity generation. The mitigation of climate and disaster risks is considered into planning and budgeting but technical and financial capacities remain a constraint.</p>
Operation ID	P162279

**IDA PROGRAM DOCUMENT FOR A PROPOSED GRANT  
TO THE REPUBLIC OF MADAGASCAR**

**1. INTRODUCTION AND COUNTRY CONTEXT**

1. **This Program Document proposes an Inclusive and Resilient Growth<sup>1</sup> Development Policy Operation (DPO) for the Republic of Madagascar** in the amount of SDR 31.9 million (US\$45.0 million equivalent). The proposed operation is the first in a multi-sectoral programmatic series of two International Development Association (IDA) grants and is intended to support a reform program that tackles the micro-foundations of inclusive and resilient growth by (i) strengthening the resilience of individuals against shocks and (ii) creating an enabling environment for economic opportunities in rural communities.

2. **While Madagascar is an island nation blessed with many assets, repeated political crisis have held the country back.** With a population of near 24 million of which 64 percent is less than 25 years of age, Madagascar has the potential to reap a demographic dividend. Agricultural lands, forest areas, and access to the sea could make it the “food basket” of the Indian Ocean, if not beyond. An unparalleled biodiversity and cultural wealth could drive tourism expansion. The workforce is relatively literate and its small - but reasonably diversified - private sector could thrive. However, repeated political crises have held Madagascar back. Over the last fifty years, all heads of state (excluding the current President) have either gained or lost power as the result of an unconstitutional event. The application of existing institutions and legal norms has been repeatedly undermined by the political networks of a few. The Malagasy population have borne the cost of this political instability.

3. **Madagascar has one of the highest rates of poverty in the world.** The average Malagasy is 42 percent poorer today than in 1960, the year of Madagascar’s independence. As of the latest data available (2012), only 30 percent of Malagasy live above the national and only 10 percent above the international poverty line. Poverty is not only widespread, it also runs deep: the average Malagasy consumes 32 percent less than a person living directly at the national poverty line. The most recent poverty analyses<sup>2</sup> show that Madagascar made little progress in improving the welfare of the poor between 2001 and 2012. The incidence of extreme poverty is higher among female-headed households, which make up one-fifth of all households.

4. **Since the return to constitutional order in early 2014, Madagascar is progressively putting itself back on a positive development track.** The elected government that took office in 2014, after a five-year long political crisis, has made tangible progress stabilizing the economy and restarting growth. This has been supported by two consecutive International Monetary Fund (IMF) Rapid Credit Facility (RCF) programs, followed by a six-month IMF staff-monitored program and an ongoing three-year Extended Credit Facility (ECF) program that started in 2016. Madagascar’s macroeconomic reform agenda was further supported by the World Bank’s Reengagement DPO in 2014, the Resilience DPO in 2015 and the on-going 2016-17 Public Finance Sustainability & Investment programmatic DPO series. These efforts have

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<sup>1</sup> This operation defines inclusive growth as growth that enables the poor to benefit from rising prosperity and that offers a way out of poverty. It defines resilient growth as growth that strengthens the resilience of the most vulnerable to shocks (ranging from climate-related to individual health shocks), reducing their exposure to shocks and strengthening coping mechanisms when shocks do occur.

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

contributed to a gradual macroeconomic recovery in Madagascar, with real Gross Domestic Product (GDP) growth expected to reach 4.1 percent in 2017.

5. **A key challenge for Madagascar is to ensure that these positive macroeconomic developments are brought closer to the poor, who have so far been left behind.** Mining and the tertiary sector, including public works, are the main drivers of Madagascar's recent macroeconomic growth. Export processing zones are also expected to continue growing. Yet, the main sector of employment for the bottom 80 percent of households is agriculture<sup>3</sup>. Reforms are needed to translate the current political stabilization and economic growth into better conditions for the poor. Rural communities need to be connected on the ground with stronger employment opportunities, both on-farm and off-farm. Individuals and households need to develop resilience to the many shocks, including frequent climatic disasters, that are holding them back today. This includes having access to basic public services as well as access to savings and credit to rebuild their lives after shocks.

6. **Recognizing this challenge, the country is embarking on an ambitious reform program to promote the inclusiveness and resilience of economic growth – supported by this DPO series.** The Madagascar National Development Plan (NDP) 2015-19, which is being implemented through the Economic Development Paper (EDP) 2017-2019, has set out the national goal of “*development through inclusive and sustainable growth, taking into account the spatial dimension*”. Supporting this goal, the World Bank Country Partnership Framework (CPF) has designed its 2017-21 program around two focus areas: (i) increase resilience and reduce fragility and (ii) promote inclusive growth. This DPO series supports the implementation of a coherent set of critical government reforms aligned with this development strategy by focusing on the micro-foundations of growth.

7. **This operation builds on the lessons learned from previous DPOs.** The 2014 Reengagement DPO focused on politically feasible reforms, that could build a momentum for future changes, as recommended by World Development Report (2011), Conflict, Security and Development and an Independent Evaluation Group (IEG) report on engaging with fragile states.<sup>4</sup> It focused on improving transparency, better debt and arrears management, and encouraging an increase in fiscal space for social sector spending. The 2015 Resilience DPO made further inroads in transparency and fiscal management by strengthening budget reporting and an improved management of the public payroll. The Fiscal Sustainability DPO series, started in 2016, focuses on a medium-term fiscal agenda that widens the scope for public investment and service delivery by tackling more complex reforms such as subsidy and pension sector reforms. Key lessons from all of these DPOs are that reforms have to balance ambition with realism, that great attention has to be paid to governance structures of sector reforms and the importance of leveraging ongoing technical assistance (TA) to sustain the dialogue. The current DPO series on inclusive and resilient growth focuses on structural reforms that are complementary to those of the public finance and investment climate DPO by supporting reforms that channel the benefits from higher fiscal space and promoted growth to the poorest, and are linked to World Bank/International Finance Corporation (IFC)'s investment projects and TA.

8. **The implementation risks associated with this DPO series are significant.** First, with elections scheduled at the end of 2018 or early 2019, renewed political uncertainty could prevent the full implementation of the DPO reforms – or even lead to a roll-back of policies. Second, some of the proposed reforms, for instance those focusing on enhancing transparency in the use of public funds and on securing property rights, might encounter resistance as they are potentially tackling vested interests. Third,

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<sup>3</sup> World Bank, 2016. Shifting Fortunes and enduring poverty in Madagascar.

<sup>4</sup> World Bank Group Assistance to Low-Income Fragile and Conflict-Affected States: An IEG Evaluation (2013).

political or climatic shocks could again destabilize Madagascar's macroeconomic and fiscal framework. In such a scenario, the government may be forced to reduce resources devoted to poverty reduction – and some of the actions supported by this DPO series. Finally, the implementation of the reforms supported by this DPO series is complex, requiring collaboration with a large number of Ministries and continued intense technical work. Wherever possible, this operation therefore seeks complementarities with ongoing investment projects and TA provided by the international donor community.

## 2. MACROECONOMIC POLICY FRAMEWORK

### 2.1. RECENT ECONOMIC DEVELOPMENTS<sup>5</sup>

9. **Madagascar's growth has predominantly been driven by the secondary and tertiary sectors, leaving the rural population behind.**<sup>6</sup> While being the main source of income for the majority of the population, the agricultural sector is characterized by low productivity, and is highly vulnerable to climatic variations. Over the last 20 years, the growth in the primary sector averaged 1.4 percent, against an overall GDP growth averaging 3 percent.<sup>7</sup> In addition, the growth episodes in Madagascar have always been interrupted by political crisis, nurturing the persistence of poverty<sup>8</sup>. The most prosperous growth episode was recorded between 2003 and 2008 with average annual GDP growth reaching 6.3 percent. During that period, the investment phases at two large mining projects<sup>9</sup>, which are capital intensive and regionally located, were the main drivers of growth. Since 2014, main sources of growth have been tourism activities, export processing zones and public works.

10. **In 2017, the estimated growth rate is 4.1 percent, largely driven by activities in the tertiary sector.** This trend follows performance in 2016, where the economy is estimated to have grown by 4.2 percent, also underpinned by tertiary sector led growth. Strong performance has been recorded in trade, services and transport. The increase in services-related activities is likely to reflect a pick-up in tourism, as the number of foreign visitors to Madagascar increased by over 4 percent in the first half of 2017, compared with the same period last year. Public works related activities, in support of the planned scale-up in public investments, as well as emergency reconstruction works in response to the recent natural disaster shocks, are also contributing to growth. Activities from industrial processing zones have been increasing, reflecting stronger textiles exports following the reinstatement of eligibility to the African Growth and Opportunities Act (AGOA).<sup>10</sup> The process of certain agricultural products such as sugar has been increasing, which is captured under the secondary sector. Growth in the extractive industries remains modest, as global nickel prices remain low in comparison with other metals. Agricultural activities have contracted following the climatic shocks, as local production has declined.

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<sup>5</sup> The authorities have recently re-based their GDP figures and these will be incorporated in the World Bank's calculations in 2018, once the authorities have absorbed the new figures.

<sup>6</sup> The secondary sector refers primarily to manufacturing activities and the tertiary sector refers to the supply of services to consumers and businesses.

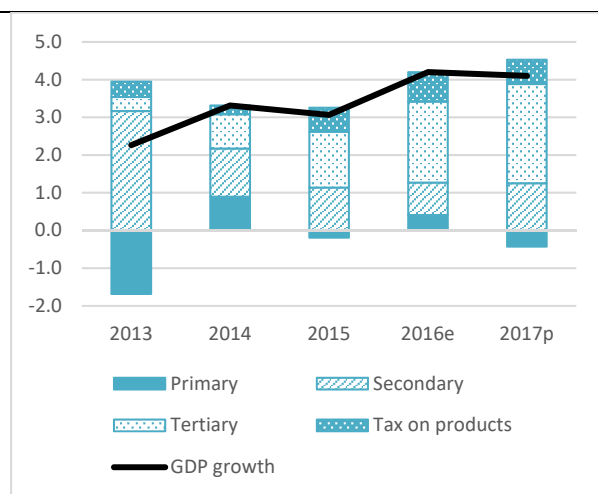
<sup>7</sup> The primary sector includes mainly activities in agriculture, fisheries and forestry.

<sup>8</sup> GDP growth averages 5 percent in out of crisis periods.

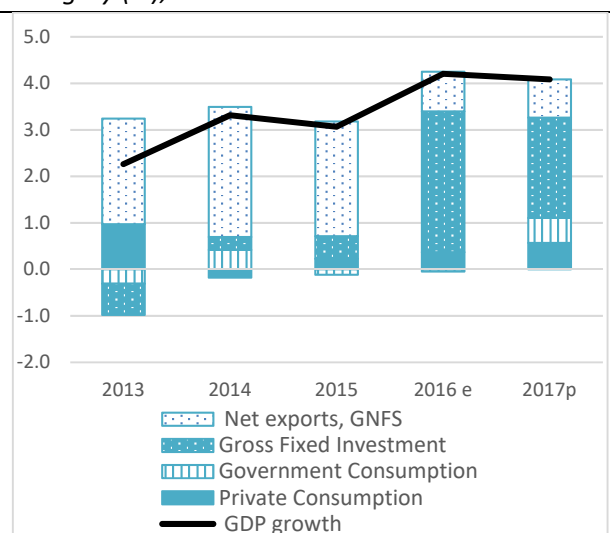
<sup>9</sup> The two mining projects include nickel extraction with an investment estimated at US\$8 billion and ilmenite extraction with an investment estimated at US\$1.1 billion.

<sup>10</sup> AGOA is a United States Trade Act that enhances market access for countries in Sub Saharan Africa, which improve the rule of law, human rights, and respect for core labor standards. Madagascar lost AGOA eligibility in 2009 following the political crisis and regained it in 2014 after the return to constitutional order.

**Figure 1: Sectoral contributions to growth (%), 2013 – 2017**



**Figure 2: Contributions to growth by expenditure category (%), 2013 – 2017**



Source: National Institute of Statistics and World Bank staff calculations, October 2017

11. **The economy has been affected by a number of shocks in 2017.** Madagascar suffered from a serious drought in late 2016 and early 2017, which depressed agricultural activities. Rice output, the country's main staple, is estimated to have fallen by 20 percent. Hydroelectric power supply was also affected and the state-owned electricity utility JIRAMA needed higher subsidies. The worst cyclone in 13 years hit Madagascar in March 2017, imposing costs estimated at US\$400 million (4 percent of GDP), of which approximately one-third fell on the public sector and two-thirds on households and the private sector. Damages on agricultural crops have aggravated the living conditions of the rural population, which already suffers from low agricultural productivity. The capacity of the rural population to respond to unforeseen shocks is constrained by limited access to social protection programs and credits, which can act as a buffer in times of crisis. Access to credit would also stimulate entrepreneurial activities that provide alternative source of income in addition to farming.<sup>11</sup>

12. **Inflation has increased but remains under control.** Inflation accelerated from 7.0 percent at end-2016 to a peak of 8.6 percent in May 2017, with food (especially rice) and housing (rents) as main drivers, and then started to decelerate reaching 8.2 percent in July 2017. The Central Bank reacted by tightening monetary policy and by raising the policy rate from 8.3 to 9 percent in May 2017, the highest level since October 2015.

13. **The projected scaling-up of investment is expected to weaken the current account balance.** Madagascar runs a structural current account deficit, but 2016 was an exception, with the current account recording a small surplus of 0.6 percent of GDP, reflecting an increase in vanilla export prices, higher textile exports, and a decline in imports to support the development of two large mining operations. Going forward, the current account balance is expected to fall back into deficit, at around 3.4 percent of GDP in

<sup>11</sup> Currently, less than 3 percent of the population benefits from social protection program and less than 9 percent of adult population has an account in a financial institution.

2017. The current account deficit is expected to be primarily financed by external financing of public sector investment and foreign direct investment.

14. **Madagascar officially maintains a flexible exchange rate.** Central bank interventions have typically sought to smooth large exchange rate fluctuations and meet foreign reserve targets. Between January and August 2017, the MGA has appreciated against the US dollar by an estimated 10.8 percent in nominal terms, and depreciated against the Euro by 0.4 percent. Nevertheless, trade data indicates that demand for Malagasy exports such as vanilla and garments remains strong. The appreciation of the MGA against the US dollar was most pronounced in June and July 2017, which coincides with the opening of the vanilla season and a rise in foreign exchange earnings.

15. **While the financial sector should be robust against normal economic fluctuations, risks arising from financial deepening underscore the need to enhance supervision.** Financial soundness indicators signal that:

- All banks fulfill the capital adequacy requirements, although the banks are operating with a relatively limited amount of capital;
- Banks are on average highly profitable, mostly due to high spreads between loan and deposit rates and a comfortable fee income, but there are large differences among the banks;<sup>12</sup>
- Liquidity is ample in aggregate, with banks' deposits exceeding loans, although liquidity management is hindered by the lack of an effective secondary market in government securities and a segmented interbank market;
- Dollarization of deposits and credits is not pronounced and banks' foreign assets exceed foreign liabilities;
- The non-performing loan ratio remains elevated at around 9.8 percent (as of June 2017) but is on a declining trend; and
- However, risks to the financial sector (as demonstrated by the failure of a bank and a microfinance network in 2015) highlight the need to enhance supervision.

16. **Many Malagasy businesses and households have yet to gain access to formal financial services.** A 2016 FinScope survey found that only 12 percent of Malagasy households had access to banking services, 17 percent had access to other non-bank institutions, 29 percent only had access to informal mechanisms to manage their finances and 41 percent of household were fully financially excluded. Access to credit for enterprises - particularly for micro, small and medium-sized enterprises – remains also constrained and interest rates are high, which limits employment opportunities for the poor and the development of a more competitive private sector. According to the World Economic Forum Executive Opinion Survey 2016, access to finance was ranked 3rd most problematic factor for doing business (after political instability and corruption). In this environment, the rapid growth of e-money – as a first step towards use of formal financial services - holds great promise for financial inclusion. Data from the Financial Access survey show a rise of 37 percent in the number of e-money agents to reach 59 per 100,000 adults in 2016.

17. **The authorities have recast the 2017 budget in order to offset damage caused by the recent shocks.** The revised budget law, adopted in June 2017, reflects the authorities' efforts to maintain macroeconomic stability, while reprioritizing expenditures given the shocks to the economy. The

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<sup>12</sup> The high spread is partly explained by the transfer of credit risks to consumers, linked to the mistrust to the judicial institutions.

adjustments to the budget law are consistent with the first review of the IMF's ECF arrangement. Total revenues and grants are now projected at 15.0 percent of GDP for 2017 compared with 13.9 percent of GDP in the original budget law. Expenditures are projected at 18.4 percent of GDP.<sup>13</sup>

18. **Current expenditures in the revised budget for 2017 are expected to increase compared to 2016 to address the shocks.** Current expenditures are forecast to increase from 10.8 percent of GDP in 2016 to 12.2 percent of GDP in 2017. This increase is driven by higher transfers, which include: larger subsidies to JIRAMA (from US\$74 million to US\$133 million),<sup>14</sup> emergency-relief related expenditures of US\$35 million to be channeled through line ministries, and a one-off transfer to Air Madagascar of US\$89 million to cover debt obligations.<sup>15</sup> The Government is making efforts to reduce regressive expenditures such as fuel subsidy and the transfers to the Pension Funds, to enhance the equity of public expenditures and safeguard planned spending on social priority sectors.<sup>16</sup>

19. **Capital expenditure are also increasing in 2017.** Capital expenditures are now forecast to 6.3 percent of GDP in 2017 (compared to 5.2 percent of GDP in 2016). Higher capital spending is intended for projects planned to support the implementation of the NDP and new projects for emergency related expenditures in sectors such as water, roads, transport, agriculture, social protection, health and education. Public investment spending is expected to be scaled up supported by both domestic and external financing.

20. **The upward revision of revenues in the revised budget partly reflects progress in implementing tax administration reforms.** Different measures to strengthen tax administration have been implemented, such as reinforced risk-based controls, and closer collaboration between tax and customs directorates. As a result, tax revenues are forecast to reach 11.4 percent of GDP in 2017. In addition to higher revenue collections, grants from development partners are projected to be higher in the revised budget.

21. **The fiscal deficit is expected to be slightly higher in 2017 compared with 2016.** The (cash) deficit in the revised budget law is 4.3 percent of GDP, compared with 2.0 percent in 2016.<sup>17</sup> Of the total financing requirements, it is expected that 2.3 percent of GDP will be financed through foreign borrowing and the remainder from domestic borrowing. To meet the exceptional financing needs following the cyclone, the IMF increased its financing by SDR 30.6 million (equivalent to about US\$42.3 million at current exchange rates) to help offset pressures on the balance of payments from the shocks, while also supporting the authorities' plans for the central bank to on-lend about US\$50 million of the IMF disbursements in 2017.<sup>18</sup>

## 2.2. MACROECONOMIC OUTLOOK

22. **The medium-term economic growth outlook is positive, largely reflecting the scaling-up in investments.** Based on current projections, economic growth is estimated to reach 5.1 percent of GDP in 2018, and then average 5.3 percent over the 2019 to 2022 period. The tertiary sector is expected to remain a key growth driver, supported by activities in public works, transport and services. The energy sub-sector

<sup>13</sup> Madagascar's fiscal year runs from January to December. The original budget law was approved in January 2017.

<sup>14</sup> Because of the drought, the main hydropower site that supplies the Antananarivo network could not be used to its full potential.

<sup>15</sup> Clearing Air Madagascar's debt liabilities is part of the authorities' efforts to restructure the under-performing airline.

<sup>16</sup> Fuel subsidies and public pension funds benefit mainly the top quintile of consumption.

<sup>17</sup> The fiscal deficit is calculated on a cash basis and considers the Government's float and arrears repayments.

<sup>18</sup> Under the ECF arrangement member countries can request augmentation of access of quota when there are shocks. A proposal to increase Madagascar's allocation by 12.5 percent was approved by the Board in June 2017.

is projected to grow at an average of 10.5 percent over the 2018-2022 period, as private production expands, provided JIRAMA's governance reforms start to bear fruit. Activities in export processing zones are expected to remain strong, underpinned by firm demands from major trading partners, France and the United States. The tourism sector could also become an important contributor to growth, particularly if foreseen improvements to the national airline, Air Madagascar, materialize as planned. While the agriculture sector is expected to progressively recover from the natural disasters, complimentary reforms are needed to significantly improve productivity in addition to land tenure security and rural connectivity.<sup>19</sup>

**23. Reflecting the country's significant external financing needs, the current account deficit is expected to widen further in 2018.** The deficit is expected to average 4.2 percent of GDP over the 2018 to 2022 period, as scaled-up public and private investments will drive the demand for imports. The current account deficits will be offset by the related surpluses in the capital and financial accounts from public sector grants and loans and foreign direct investment.

**24. Monetary policy is expected to maintain its focus on controlling inflation.** Over the medium-term, inflation is expected to stabilize around 5 percent. A vigilant monetary policy will be needed to address unexpected upside pressures. For example, unfavorable climatic conditions may depress agricultural productivity, reducing the supply of key consumer goods such as rice and creating an upward pressure on prices.

**25. The Government is readjusting fiscal policy over the medium-term to support the implementation of the NDP.** Provided the momentum for reforms continues, tax revenues are expected to rise to 13.1 percent of GDP by 2022, underpinned by higher domestic taxation. Over the medium-term, expenditures are expected to reach an average of 19.5 percent of GDP. Current expenditures are expected to be contained, with a stable wage bill and declining transfers and subsidies. The added fiscal space from higher revenues and reduced subsidies and transfers is expected to be channeled to social spending and public investment expenditures, which is projected to average 9.6 percent of GDP over the period 2018 to 2022 in support of the growth outlook. Reforms are also being implemented to enhance the resources available to local communities to improve the delivery of basic social services at local level.

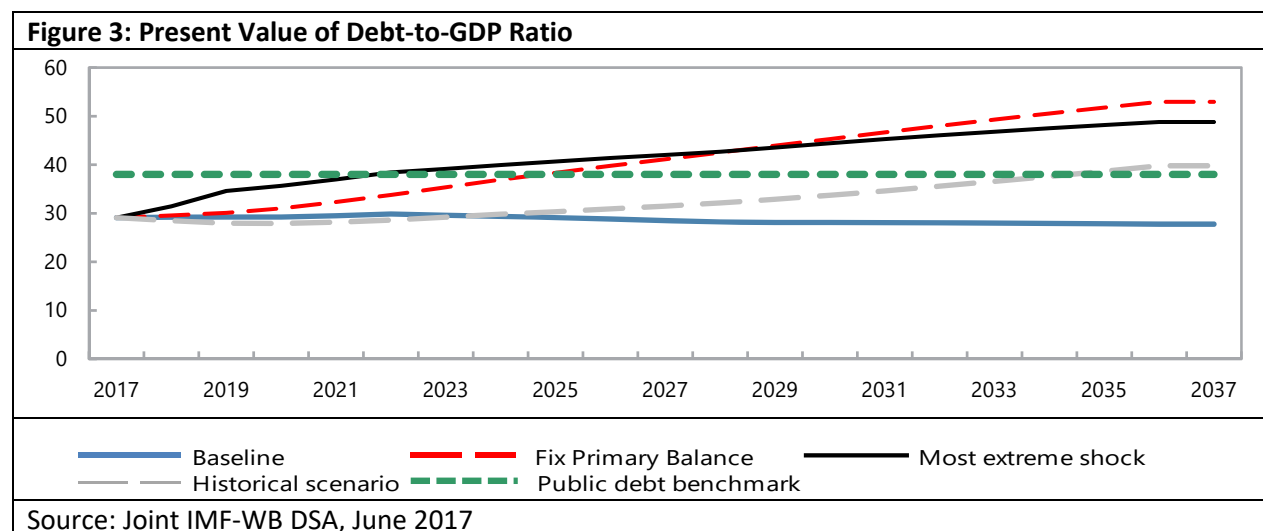
**26. The level of external debt distress risk remains moderate.** According to the joint IMF-WB Debt Sustainability Analysis (DSA) undertaken in June 2017, the present value (PV) of debt-to-GDP ratio stood at 29.1 percent in 2017. Debt dynamics are assessed to have improved since the previous DSA undertaken in July 2016 due to more favorable financing assumptions following the Donors and Investors Conference in December 2016. The present value of debt-to-GDP ratio is expected to stay steady at around 29 percent over the medium-term. Under the baseline scenario, all indicators remain below debt burden thresholds. Stress tests indicate that debt sustainability is vulnerable to shocks, poor revenue collection, and contingent liabilities associated with state-owned enterprises (SOEs).<sup>20</sup> The most extreme shock—a one standard deviation reduction in GDP growth in 2018-2019—would lead to a rapid and persistent breach of the threshold starting in 2022. Assuming that the primary deficit remains unchanged as a proportion

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<sup>19</sup> According to the CPF, agricultural productivity could be increased through three important pathways, (i) by ensuring land tenure security; (ii) by promoting the use of fertilizers (and other inputs), irrigation, and mechanization; and (iii) by strengthening the links between agricultural production and nutrition.

<sup>20</sup> According to the last IMF Article IV 5.5 percent of GDP for JIRAMA long term and short term debt and another 1 percent for a possible recapitalization of the *Caisse d'épargne*.

to GDP throughout the forecast horizon also results in a breach in the PV of debt-to-GDP ratio in the outer years.



27. **The macroeconomic policy framework is considered adequate.** Madagascar has a good track record in managing inflation and controlling spending. During the political crisis period, the authorities cut back fiscal spending as tax revenues dwindled and support in the form of external grants and loans fell dramatically. Since reengagement with the international community, the authorities have successfully implemented a series of reforms that have been supported by WB DPOs and IMF facilities. Progress is evident in a number of areas such as higher revenue collections and eliminated fuel subsidies. The policy response to the shocks early this year has contributed to maintaining the macroeconomic framework.

28. **However, there are downside risks on the macroeconomic prospect.** Madagascar's vulnerability to natural disasters could give rise to further unforeseen shocks, which would require appropriate adjustments to monetary and fiscal policy. This vulnerability also corroborates the need to strengthen the resiliency and safeguard the welfares of the poor. If planned improvements to SOEs (in particular, JIRAMA and Air Madagascar) were to progress at a slower pace than expected, public finances could be further strained. The authorities' intention to scale-up investments partly through Public Private Partnership (PPP) risks generating contingent liabilities that need to be carefully managed. To address these potential pressures, the authorities are strengthening their capacity to manage fiscal risk, including through TA support being provided by the World Bank and the IMF.

Table 1: Selected Macroeconomic Data

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Actuals			Est	Projections					
<b>Real sector</b>										
GDP (billions of MGA)	23,397	25,775	28,585	31,769	35,751	40,493	45,653	51,042	56,633	62,571
Real GDP growth	2.3	3.3	3.1	4.2	4.1	5.1	5.6	5.4	5.2	5.0
GDP per capita (US\$)	462.5	452.8	402.1	401.4	447.6	479.0	501.2	525.4	548.1	569.0
GDP per capita growth	-0.5	0.5	0.3	1.4	1.3	2.3	2.8	2.6	2.4	2.2
Unemployment rate (ILO definition)	1.3	1.4	1.8	2.1	...	...	...	...	...	...
GDP deflator (annual % change)	5.1	6.6	7.6	6.7	8.1	7.8	6.8	6.1	5.5	5.2
Inflation, consumer prices (annual %, end of year)	6.3	6.0	7.6	7.0	8.0	7.9	6.2	5.7	5.4	5.0
<b>Public Finance (%GDP)</b>										
Revenues, excluding Grants	9.6	10.1	10.4	11.2	11.7	12.1	12.1	12.5	13.0	13.3
o/w:Tax Revenues	9.3	9.9	10.1	10.9	11.4	11.9	11.9	12.3	12.8	13.1
Grants	1.3	2.3	1.5	3.5	3.2	3.0	3.1	1.9	1.8	1.6
Total spending (commitment basis)	14.9	14.7	15.1	16.0	18.4	18.0	20.2	19.6	19.3	19.0
o/w: Capital spending	3.1	3.9	3.5	5.2	6.3	8.1	10.5	10.2	9.8	9.1
Overall balance (cash basis)	-2.0	-2.4	-3.7	-2.0	-4.3	-3.5	-5.2	-5.3	-4.7	-4.1
Total public debt	33.9	34.7	41.3	38.4	36.2	36.2	37.2	39.8	41.9	43.4
<b>Monetary accounts (annual % change)</b>										
Money Supply (M2)	9.0	9.8	15.8	21.4	18.5	13.1	15.0	16.1	16.4	14.7
Net Foreign Assets	-12.7	17.3	20.9	37.4	10.9	12.9	14.9	16.2	16.7	13.0
Net Domestic Assets	8.0	8.3	11.4	10.8	22.9	12.2	13.3	14.0	14.4	14.3
of which: Credit to the Private Sector	16.7	18.4	16.5	8.2	12.8	16.9	15.1	14.7	14.4	14.0
<b>External sector (%GDP)</b>										
Exports of goods	18.1	20.6	21.0	21.6	20.8	20.2	20.7	21.5	22.2	22.6
Imports of goods	30.7	30.2	28.7	28.6	31.0	30.1	31.3	31.7	31.9	32.2
Current account balance	-5.9	-0.3	-1.9	0.6	-3.4	-4.1	-4.3	-4.1	-4.3	-4.4
Foreign Direct Investment	5.2	2.9	4.5	4.5	3.6	3.4	3.4	3.4	3.4	3.5
Overall Balance	0.7	0.2	1.0	2.9	0.8	0.6	1.0	1.3	1.4	1.1
Foreign Reserves (months of imports)	2.2	2.5	2.9	3.9	3.7	4.0	4.2	4.3	4.4	4.4
External debt	43.8	45.0	48.6	45.4	45.3	45.6	45.7	44.9	44.0	43.1
Terms of Trade (percent change)	-0.1	-0.7	1.2	23.2	-6.9	2.5	-3.1	0.3	-0.9	-0.8
Exchange Rate LCU/US\$(average)	2,207	2,415	2,934	3177						

Source: Malagasy authorities, IMF and WB Staff calculations, October 2017

**Table 2: Balance of Payments financing requirements and sources (% of GDP)**

	2015	2016	2017	2018	2019	2020	2021	2022
	Actual	Est	Projections					
Total financing requirements	8.6	9.1	10.2	9.9	12.0	10.6	9.9	9.1
Current account deficit	1.9	-0.6	3.4	4.1	4.3	4.1	4.3	4.4
Net repayment of private sector debt	1.6	2.1	2.2	1.8	1.5	1.4	1.4	1.4
Repayment of Government debt	0.4	0.7	0.8	0.6	0.5	0.7	0.7	0.7
Gross reserves accumulation (+/- increase)	1.3	3.6	1.8	1.3	1.7	1.2	1.2	0.8
IMF repayments	-0.2	0.1	0.1	0.1	0.0	0.1	0.1	0.2
Other (inc. unrepatriated export revenues)*	3.6	3.1	1.9	2.1	3.6	2.7	1.9	1.3
Available financing	8.6	9.1	10.2	9.9	11.6	10.2	9.6	8.9
Foreign direct and portfolio investment	4.3	4.5	3.6	3.4	3.4	3.4	3.4	3.5
Budgetary support	1.4	0.2	1.1	0.0	0.0	0.0	0.0	0.0
Project support	2.5	4.0	4.2	5.7	7.5	6.8	6.2	5.4
IMF: RCF and ECF arrangement	0.4	0.4	1.2	0.8	0.7	0.0	0.0	0.0

Source: Malagasy authorities, IMF and WB Staff calculations, October 2017.

**Table 3: Fiscal operations of the Central Government (% GDP)**

	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Actuals	Est	Projections						
Total revenues and grants	12.4	11.8	14.7	15.0	15.1	15.2	14.4	14.7	15.0
Tax revenues	9.9	10.1	10.9	11.4	11.9	11.9	12.3	12.8	13.1
Non-tax revenues	0.2	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Grants	2.3	1.5	3.5	3.2	3.0	3.1	1.9	1.8	1.6
Total expenditure	14.7	15.1	16.0	18.4	18.0	20.2	19.6	19.3	19.0
o/w: social priority spending	0.9	0.7	0.8	1.0	1.1	1.3	1.5	1.8	1.9
Current expenditure o.w	10.8	11.7	10.8	12.2	9.9	9.6	9.4	9.6	9.9
Wages	5.6	5.5	5.6	5.8	5.6	5.4	5.2	5.2	5.4
Goods and Services	0.9	0.5	0.6	0.9	0.9	1.0	1.1	1.2	1.3
Transfers and Subsidies	3.2	3.4	3.1	4.0	2.3	2.0	1.9	2.0	1.9
Interest	0.6	0.8	0.9	0.8	1.0	1.0	0.9	0.9	1.0
Capital expenditures	3.9	3.5	5.2	6.3	8.1	10.5	10.2	9.8	9.1
Domestically financed	1.2	1.0	1.2	2.0	2.4	3.0	3.4	3.6	3.7
Externally financed	2.8	2.5	4.0	4.2	5.7	7.5	6.8	6.2	5.4
Primary balance	-0.5	-1.3	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commit. Basis)	-2.3	-3.3	-1.3	-3.5	-3.0	-5.0	-5.2	-4.6	-4.0
Arrears variation and float (+/- accumulation)	-0.1	-0.4	-0.7	-0.9	-0.6	-0.2	-0.1	-0.1	0.0
Overall balance (cash basis)	-2.4	-3.7	-2.0	-4.3	-3.5	-5.2	-5.3	-4.7	-4.1
General Government financing	2.4	4.1	2.0	4.3	3.5	5.2	5.3	4.7	4.1
External (net)	1.2	2.2	0.7	2.3	3.1	4.8	4.6	4.0	3.3
Domestic (net)	1.2	2.0	1.4	2.1	0.4	0.4	0.6	0.7	0.8

Source: Malagasy authorities, IMF and WB Staff calculations, October 2017.

\*A major share of unrepatriated export revenues comes from the export of mining products, which is governed by a special change regime.

## 2.3. RELATIONS WITH THE IMF

29. **In July 2016, the IMF Board approved a three-year ECF agreement for Madagascar, covering the period of 2016 to 2019, for an amount of SDR 220 million (equivalent to about US\$295 million).** This approval followed satisfactory progress under two rapid credit facility programs in 2014 and 2016 respectively and a six-month IMF Staff Monitored Program between September 2015 and end-March 2016. The arrangement under the ECF supports the Government's program to reinforce macroeconomic stability and promote sustainable and inclusive growth. The program focuses on (i) boosting prospects for inclusive growth through scaling-up of investment and improved access to education, health care, and social protection, (ii) creating fiscal space through improved revenue generation and spending prioritization, (iii) reinforcing economic governance by strengthening public financial management and intensifying anti-corruption measures, and (iv) strengthening macroeconomic stability by bolstering central bank operations and financial supervision. A first review of the ECF agreement in June 2017 concluded that progress had been satisfactory so far. However, in light of numerous shocks including a severe drought and the cyclone, the IMF Board at its meeting on June 28, 2017 approved: (i) a waiver for the nonobservance of the continuous performance criterion on accumulation of new external payment arrears<sup>21</sup> and (ii) a disbursement of US\$86 million, including an augmentation of SDR 30.6 million (equivalent to about US\$42.3 million). The World Bank maintains a close working relationship with the IMF, with regular collaboration across policy issues between the two institutions.

## 3. THE GOVERNMENT'S PROGRAM

30. **In April 2017, the Government consolidated its approach to stimulating growth and reducing poverty through the 2017-2019 EDP, which synthesizes the sectoral strategies for the implementation of the NDP.** The EDP details a wide-range of reforms that the government intends to execute to address the constraints to promoting growth and reducing poverty built on macroeconomic, sectoral and structural approaches. As an enactment of the NDP, the different areas of reform included in the EDP are aligned with the pillars of the NDP.

31. **Five areas of the EDP overlap with the reform areas supported by this programmatic DPO, which are (i) rural development, (ii) rehabilitation and development of infrastructures, (iii) energy development, (iv) inclusive financial system, and (v) expansion of the social protection system.** The World Bank programmatic series DPO on Public Finance Sustainability and Investment (P160866 and P164137) complements this operation and supports the reforms related to strengthening the fiscal framework and to improving the business climate. Those reforms have had the benefit of stabilizing the economy, reinforcing public finance management (PFM), and possibly re-establishing the credibility of key institutions. While these have led to a rebound in economic activities, past experience shows that more reforms are needed to ensure that micro and small enterprises (mostly informal), farming smallholders, and rural households participate in growth.

32. **Strengthening the resilience of the most vulnerable is fundamental for improving livelihoods in the long term.** Lifting the Malagasy poor out of poverty requires to build livelihoods that are more resilient in the face of the many shocks – ranging from frequent climatic shocks, including hurricanes, droughts

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<sup>21</sup> This was due to a technical difficulty in paying Libya and is being resolved.

and floods<sup>22</sup>, to macroeconomic and health shocks – that keep on reversing their progress today. Their exposure to these shocks needs to be reduced and, when shocks do occur, coping mechanisms need to be strengthened. In particular, the poor need greater access to social safety nets and financial services to mobilize the resources to rebuild their livelihoods after shocks.<sup>23</sup>

**33. Promoting inclusive growth is vital for enabling the poor to access economic opportunities – on- and off-farm–, benefiting from rising prosperity and offering a way out of poverty.** For many rural poor, their land is their only significant asset and the foundation for their economic advancement. However, land tenure rights need to be secured and strengthened. Rural communities suffer from underfunded basic public services, including education and health, that would help to build up the human capital needed to access better economic opportunities. Agricultural productivity is low and has been falling in the past 50 years.<sup>24</sup> Critical rural infrastructure is poorly operated and maintained. Half of Madagascar’s secondary roads and two thirds of tertiary roads were classified as being in “bad condition” in 2012. Only 6 percent of rural households have access to electricity, one of the lowest rates of rural electrification in the world. These infrastructure gaps prevent the rural poor from scaling up beyond subsistence farming, accessing urban markets and diversifying their sources of income.

**34. The specific strategies and interventions of the Government related to each reform area supported by this programmatic DPO are specified below:**

- **The Civil Status Rehabilitation Program:** The program on civil status rehabilitation was initiated in 2004 and puts an emphasis on the registration of birth. Madagascar’s commitment in reforming and improving civil registration system is underpinned by its membership in the Africa Program on Accelerated Improvement of Civil Registration and Vital Statistics since 2015. A National Coordination Committee follows up the implementation of the program at the national level and an Assessment of the system of records of civil status events, including recommendations to improve the system, was completed in 2017. The Government’s reform plan includes (i) the creation of a secondary itinerant service for birth registration, (ii) reform of the legislative framework to be in line with social, geographic and new technologies context, and (iii) reform of conservation and archiving processes to ensure security and confidentiality.
- **The National Policy for Social Protection:** The Government adopted the National Policy for Social Protection in 2015 with the goal of reducing the share of the population living below the level of extreme poverty by 15 percent in 2030. The policy lays out the government’s ambitions along different dimensions of the social protection policy, including the expansion of the coverage of social safety nets, improvement in the access to basic social services (basic education, basic health services, water and sanitation and housings), protection of vulnerable people, and extension of contributory schemes to people living in remote areas and to those working in the informal sector. With support from donors, the Government’s social safety nets projects have been scaled up in recent years, covering up to 130,000 households in 2017.
- **The Financial Sector Assessment program (FSAP - 2015):** A joint WB/IMF assessment of the financial sector conducted in close cooperation with the Government of Madagascar in 2015, revealed low financial inclusion, weak supervision and an outdated legal framework for the financial sector. As a result, the

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<sup>22</sup> Two major natural disaster related shocks occurred in early 2017: a severe drought and a category 4 cyclone, the strongest of its kind in 13 years.

<sup>23</sup> A 2016 FinScope survey found that only 12 percent of Malagasy households had access to banking services, 29 percent only had access to informal mechanisms to manage their finances and 41 percent of household were fully financially excluded.

<sup>24</sup> Agriculture employs 74.5 percent of the workforce, while contributing only 25.6 percent to GDP (World Bank World Development Indicators 2015)

sector is underdeveloped with less than 9 percent of the adult population having an account in a financial institution and a pronounced difficulty for the poorest part of the population to access financial institutions compared to similar countries. The Government has made progress in implementing the recommendations of the FSAP, including the adoption of the new law on electronic money in February 2017, capacity building of the supervisory agency, and the preparation of several draft laws (e.g. new microfinance law, law on credit bureau) recommended by the assessment.

- **The New Letter on Land Policy** was adopted in 2015 to update the Land Policy adopted in 2005.<sup>25</sup> The New Land Policy aims to contribute to, inter alia, the expansion of household agriculture, a harmonized and inclusive urban and rural development, the enhancement of the responsibilities and the resources of local communities, and the intensification of land securitization. The introduction of land certificates and the decentralized process for registering land ownership remain the main flagship innovations generated by the adoption of a Land Policy in Madagascar. These changes have allowed more than 120,000 individuals to record a proof of ownership of their land through a cheaper and less cumbersome process.
- **The Declaration of the Transport Policy and Strategy in Rural Area.** The Declaration is based on the improvement in the access of the rural population to market and to socio-economic services with the aim to develop productive activities and improve income in rural areas. The strategy transfers the management and the maintenance of rural road network to local communities. The *Fonds d'Entretien Routier (FER)*<sup>26</sup> has been created to ensure the good quality of the road network and ensure sustained financing of road maintenance. The current regulatory framework defining the FER status prioritizes the financing of National Road over municipal Roads.<sup>27</sup> The authorities are currently updating the National Road Policy (adopted in 2001), to which the Declaration of the Transport Policy and Strategy in Rural Area is appended.
- **The fundamentals of Madagascar Decentralization Policy** are defined in the organic law n°2014-018. Decentralization in Madagascar aims to promote territorial development through increased inclusion. Since 2014, the Government has developed the institutional framework for decentralization by passing the texts defining the operating mode and resources of local communities. Transfers to government for financing investment has always been operated through the Local Development Fund, but under this scheme, transfers to local communities remained below 5 percent of total public expenditures. In order to reduce the inequality between local governments, the Government instituted the equalization fund in 2016. The reforms supported by this DPO aim to promote the operationalization of this equalization fund.
- **The Letter of New Energy Policy (NEP) of Madagascar**, covering the 2015-2019 period, targets to increase access to electricity from 14 percent in 2010 to 70 percent of households in 2030. The NEP is oriented along five priority axes: (i) valorization of natural capital and environment preservation, (ii) access to sustainable energy for all, (iii) ensuring security and independence in energy for the country, (iv) adaptation and enhancement of the regulatory, institutional, and business environment framework, and (v) securing financing of energy needs. The policies regarding electricity supply focus on the prioritization of the extension of hydroelectric network, and the development of mini-networks and solar energy in rural areas. The Letter accredits the *Agence de Développement de l'Électrification Rurale (ADER)*<sup>28</sup> as the

<sup>25</sup> The preceding Letter on Land Policy was adopted in 2005, to be effective for 10 years.

<sup>26</sup> Road Maintenance Fund.

<sup>27</sup> The status of the FER is established by the *Decrét n°2016-924 portant Statuts du Fonds d'Entretien Routier*.

<sup>28</sup> Agency for the Development of Rural Electrification.

implementing agency of rural electrification. The Government completed an identification of the potential small hydropower sites in Madagascar that have the advantage of being faster to develop and could easily find financing compared to larger sites, with support by the World Bank.

## **4. THE PROPOSED OPERATION**

### **4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION**

35. **The program development objective of this programmatic operation is to tackle the micro-foundations of inclusive and resilient growth by (i) strengthening the resilience of individuals against shocks and (ii) creating an enabling environment for economic opportunities in rural communities.** The proposed operation is the first in a series of two programmatic operations aimed at supporting the Government in its objective of promoting growth and reducing poverty. In line with the two focus areas of the World Bank CPF 2017-21 program, this program focuses on building resilience and more inclusive growth.

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

- **The first pillar seeks to build the foundations for resilience at the individual and household level.** Repeated shocks – ranging from frequent climatic shocks, including hurricanes, droughts and floods, to macroeconomic and health shocks – have tested the resilience of Madagascar's poor in the past five decades leading to a reversal of the little progress that had been made in terms of poverty reduction. Limited access to social safety nets and financial services made it difficult for individuals to get through these crises and to rebuild livelihoods after shocks. The DPO program, therefore, supports reforms aimed at strengthening the coordination of Madagascar's existing pilot local social safety net programs, laying the foundations for a national roll-out. The DPO supports the implementation of the recently approved electronic money (e-money) law, encouraging formal savings and payments through e-money even in remote locations without access to conventional financial services and even for those customers that cannot afford the fees associated with full bank accounts. The operation also accompanies the establishment of a private credit information bureau, which will ease credit constraints for households and micro and small enterprises. For individuals to access these services, identification documents are crucial. The DPO, therefore, strengthens access to birth registrations, supporting policies that allow retroactive issuance of birth certificates and ensuring more timely civil registration going forward.
- **The second pillar focuses on enabling rural inclusion, by supporting economic opportunities in local communities.** Close to 80 percent of Madagascar's population live in rural areas, and rural poverty rates are nearly twice as high as in urban areas. Limited access to infrastructure services and low returns on their assets – which are land, education and health – are holding the rural poor back. The DPO, therefore, supports a range of institutional reforms aimed at increasing the ability of communities to increase these returns. The DPO supports the formalization of ownership rights in rural areas by strengthening the legal value of land certificates and increases the potential for better health and education services by supporting the transfer of adequate resources to local governments. To enhance the connectivity of rural communities, the DPO also aims at strengthening infrastructure services such as communal roads by improving the governance of the road maintenance fund. Finally,

the DPO supports improvements to the governance structure of the ADER to simplify licensing and authorization procedures for rural electrification projects, including small energy producers.

37. **The inclusion and resilience aspects of this operation mutually reinforce each other.** First, resilience builds the foundations for inclusive growth. The poor need coping mechanisms against the frequent shocks that are today preventing them from improving their living conditions and benefiting from macroeconomic growth. Second, the poor need to be included in order to strengthen their resilience against shocks. By building up assets and access to services, they can better protect themselves against shocks and mobilize resources to bounce back once shocks do occur. Against this background, many reforms supported by the DPO include both aspects that promote inclusive growth and aspects that promote resilient growth. For instance, the reform strengthening communal road maintenance supported by this DPO will allow economic activity in rural communities to bounce back faster after hurricanes, as roads are rehabilitated faster. However, these measures will also improve average road quality and allow these communities to be more included in the overall economic growth of the country by linking them to markets.<sup>29</sup>

38. **This program builds on key findings of the World Bank Systematic Country Diagnostic (SCD) presented to the Board in August 2015, and the latest Poverty Assessment for Madagascar published in 2017<sup>30</sup>.** The SCD recommended concentrating on the first of the World Bank Group's twin goals of fighting extreme poverty (based on 2012 estimates), and consistent with the Africa Strategy, to work selectively and flexibly. The SCD underlined that high transport costs hinder access to markets and provide disincentives for investments. In order to improve agricultural productivity, the SCD emphasized the need to improve rural infrastructure, enhance land tenure security, increase human capital of the poor, strengthen provision of extension services and increase access to improved inputs (fertilizer, seeds) and credit. Moreover, the SCD emphasized how political stability and improved management of the country's natural capital are the factors that would contribute the most to more sustainable growth. The latest Poverty Assessment also underlined that those poor who manage frequent shocks the best are those with better access to roads and electricity services as they allow them to diversify into non-agricultural activities in times of crisis.

## **4.2 PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS**

### **Pillar A: Strengthening the resilience of individuals against shocks**

#### ***Reforming the civil registration system***

39. **Rationale:** While Madagascar has a relatively high rate of birth registrations compared to other countries in the region<sup>31</sup>, registration rates continue to lag particularly among the poorest households<sup>32</sup>. Yet, registration in the civil registry is crucial for people to have full access to essential public services (e.g. education, health and social protection), to exercise their rights as citizens (i.e. participation in elections), and it also represents a critical element towards the establishment of a national ID system. This, in turn, allows access to a wider range of services, including formal financial services.

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<sup>29</sup> Similarly, many prior actions in this DPO reinforce each other. For instance, a land certificate may create incentives to invest more in the farm – but only if roads are maintained and surplus production can be brought to market.

<sup>30</sup> Report No. 113582-MG

<sup>31</sup> 83 percent of births registered for 0-4 years in 2012-13 (Ensomd 2012-2013).

<sup>32</sup> The upcoming census (early 2018) will provide a more precise count of the number of Malagasy who are (not) registered.

40. **Reforms:** Currently, the civil registration process is complicated. At birth, registration has to be completed in a period of 12 days - which can be a challenge in remote communities. If a person is not registered at birth, the registration must be performed retroactively through a supplementary ruling in the courts – which is cumbersome and expensive, particularly in remote areas in which courts are distant. As a first step, this DPO series supports a legislative reform to allow for a simplified retroactive registration of births at the district level for a period of five years. This will then be followed by a comprehensive reform of civil registration that will simplify registration at birth. This reform will extend the statutory time for registration at birth (compared to the current 12 days), allow the use of outreach services for registration (thus facilitating the procedures for those living in remote areas), assign a unique identifier at birth, that will then become a critical element of a national ID system and establish a centralized system for monitoring of new registrations.

41. **Support:** Support in preparing and implementing this regulatory framework has been provided by the United Nations Children's Fund (UNICEF) and African Development Bank (AfDB). UNICEF provided TA on the retroactive birth registration and AfDB supported an analysis of the existing civil registry law.

- **Prior action:** The Recipient has submitted to Parliament *Projet de Loi No. 028/2017 relatif à la délivrance des jugements supplétifs d'actes de naissance dans le cadre de l'enregistrement rétroactif de naissance des enfants et des adultes dans le cadre de l'Opération Carte Nationale d'Identité*, the draft law allowing for retroactive birth registration, for a period of five years, at district level.
- **Trigger:** The Recipient has submitted to Parliament a revision of the law n° 1961-025 « *relative aux acts de d'état civil* », prolonging the time window for registering new births, organizing outreach services for birth registration, implementing a single identification number at birth and establishing a centralized system for the monitoring of new registrations.
- **Result Indicator:** Establishment of centralized system for the monitoring of new birth registrations; Baseline (2016): No; Target (2019): Yes

### ***Harmonizing social protection schemes***

42. **Rationale:** The Government as well as multiple donors and international Non-Governmental Organizations (NGO) manage a variety of social protection schemes that have been largely uncoordinated and thus fragmented. Given the magnitude of the country's poverty, vulnerability to climate change and disasters, as well as the constraints on financial and human resources, a better and more effective coordination is needed. This is an important prerequisite for the further scale-up of Madagascar's social protection system, which currently covers less than 5 percent of the population.

43. **Reforms:** The Government of Madagascar has started to put in place a series of social safety net programs, funded by development partners such as the World Bank and UNICEF, implemented by the *Fonds d'Intervention pour le Développement* (FID) and overseen by the Ministry of Population, Social Protection and Promotion of Women (MPSPPW). These well-targeted programs are reaching the extreme poor and provide cash transfers as well as livelihood grants and other complementary measures. More than 80 percent of the safety net beneficiaries are women. Various other institutions such as the World

Food Program also provide cash transfers and other resources to the poorest and most vulnerable populations, often in response to emergencies. The cash transfer programs aim to provide essential income support in the short term as well as accompanying support for children's development and productive inclusion in order to strengthen the participants' resilience to shocks and poverty in the longer term. This DPO series supports the establishment of a national social registry in the MPSPPW of households that receive social safety net and recovery support, eventually encompassing all ongoing social safety net beneficiaries in one database in Madagascar. Furthermore, the DPO series assists the government in preparing a new law that clearly assigns a coordination function to the MPSPPW regarding non-contributory social protection policies and programs. These measures will enhance a coordinated, effective and transparent approach for Madagascar's social safety net programs under the leadership of the MPSPPW.

44. **Support:** The World Bank financed Social Safety Net Project (P149323), including its additional financing for drought response in Madagascar's South, supports the reform of the social protection registry and the enhanced coordination of the country's social safety net programs by the Ministry.

- **Prior action:** The Recipient's Council of Government has issued *Décret no.2017/844 portant création et tenue de l'annuaire des interventions et du registre des bénéficiaires dans le cadre des actions de Protection Sociale du régime non-contributif*, the decree establishing a national social registry for social safety net program beneficiaries.
- **Trigger:** The Recipient has submitted to Parliament a new law on (non-contributory) social protection to strengthen the coordinating function of the Ministry of Population, Social Protection, and the Promotion of Women regarding social safety net programs.
- **Result Indicator:** Number of households registered in the national social registry. Baseline (2016): 0; Target (2019): 200,000

### ***Promoting financial inclusion through electronic money***

45. **Rationale:** Currently, 41 percent of Malagasy households are financially excluded (Finscope 2016)<sup>33</sup>. Access to and usage of e-money accounts could provide these households with a safe store of value to manage their payment needs, since they can be used at lower fees in locations not yet reached by traditional financial services. They also act as a first step towards more advanced financial services, including credit. Access to such e-money accounts can help individuals and households to strengthen their resilience against shocks as they promote access to funding in times of need.<sup>34</sup> The establishment of a regulatory framework for e-money operators is a pre-requisite for promoting a safer and sustainable use of these services.

<sup>33</sup> According to Finscope 2016, the share of financially excluded females is almost equal to the share of financially excluded males. However, when it comes to enterprises, the Enterprise Survey of 2013 indicates that female-led companies are more likely to report credit access as a major problem (female top manager: 20.8 percent; male top manager: 9.3 percent).

<sup>34</sup> Jack & Suri (2014) find that access to an e-account increases the resilience of household consumption to shocks [William Jack & Tavneet Suri, 2014, "Risk Sharing and Transactions Costs: Evidence from Kenya's Mobile Money Revolution," American Economic Review, American Economic Association, vol. 104(1), pages 183-223].

46. **Reforms:** As of 2015, there were only 94 bank accounts for every 1,000 adults in Madagascar, well below the average of 171 accounts for low-income countries.<sup>35</sup> Factors contributing to this low account penetration include (i) a sparse network of bank and microfinance institution (MFI) branches, given the dispersed nature of clients across the country, and (ii) the high fees charged for traditional accounts, reflecting the relatively high cost of handling accounts for small depositors. In this environment, e-money accounts offer great promise to strengthen financial inclusion. On December 16, 2016, the Malagasy Parliament adopted Law No. 2016-056 on e-money and electronic money institutions (EMI), which regulates the issuance of electronic money and defines the regime of issuers of electronic money. This DPO series supports the implementation of this regulatory framework by focusing on the secondary legislation that is critical for the e-money law to be effectively implemented and to yield its benefits in terms of financial inclusion. Subsequently, the DPO supports the publication by the CSBF of the decisions on all EME licensing requests received by end-March 2018. This will contribute to handling transparently and expeditiously the requests from potential e-money issuers, and complying with the deadlines set to handle licensing requests.

47. **Support:** The reforms are supported by an ongoing TA project on payment systems (P160684) funded by the FIRST Trust Fund that will shortly be complemented by an IDA investment lending operation on financial inclusion, currently under preparation (P161491), that will promote use of e-money by digitalizing government payments and the services provided by MFIs.

- **Prior action:** The Recipient's Council of Government has issued *Décret no. 2017/851 fixant le Capital Social Minimum des Etablissements de Monnaie Electronique (EME)*, the decree implementing *Loi no. 2016-056*, establishing the minimum capital requirements for EMEs; and the CSBF has issued: (i) instructions 002/2017 for the licensing process for EMEs; and (ii) instructions 003/2017 for the operating procedures for trust accounts.
- **Trigger:** The Recipient publishes decisions on all EME licensing requests received by end-March 2018
- **Result Indicator:** Volume of transactions on e-money accounts (millions); Baseline (2016): MGA 1,125 bn; Target (2019): MGA 1,945 bn

### ***Enhancing access to finance through a private credit bureau (PCB)***

48. **Rationale:** 82 percent of loans in Madagascar required collateral as of 2013 - a requirement that leads to the exclusion of many poor from the credit market. Under these circumstances, an individual's past repayment history can serve as "reputational collateral" to induce financial institutions to accept loan applications<sup>36</sup>. A credit information bureau, by collecting and sharing credit history information among participating financial institutions, but also the bill payment history for utilities and other services, can

<sup>35</sup> Data from the IMF's Financial Access Survey database.

<sup>36</sup> In parallel, the Government of Madagascar, with technical support from the World Bank and IFC, is working on establishing the regulatory framework on secured transactions to establish a collateral registry.

therefore play a key role in enhancing access to credit and financial inclusion. Yet, to date, no such credit information bureau has been established in Madagascar. A legal framework, including data protection arrangements, for such an entity needs to be created<sup>37</sup>.

49. **Reforms:** A public credit registry (PCR) is in place at the Central Bank, but – in line with its mandate – it only collects information on the credit history of households and enterprises at the Banks and MFIs. This excludes the large segments of the Malagasy population, which are unbanked. This registry does not include alternative data (e.g. mobile telcos, utilities, etc.) which is the proven vehicle to build credit histories for these underserved populations.<sup>38</sup> A new national credit reporting strategy is therefore indispensable, including (i) the establishment of a new PCB to provide broad credit information to lenders (including from alternative data sources) and (ii) a revamped PCR, tailored to serve the Central Bank to monitor the credit exposures of financial institutions and strengthen financial stability. This DPO supports the enactment of a law on the establishment, operation, licensing and supervision of the PCB. Subsequently, a Request for Proposals for the establishment of the PCB should follow. All these reforms, will be supported by parallel TA aimed at building capacity in the central bank and in lenders, supporting the implementation of the new PCB and the revamp of the PCR, fostering financial education for consumers, and promoting awareness on the role and benefits of credit reporting.

50. **Support:** Support to this reform is being provided by IFC for the establishment of the regulatory framework.

- **Prior action:** The Recipient has submitted to Parliament *Projet de Loi No. 024/2017 régissant l'activité et le contrôle des Bureaux d'Information sur le Crédit*, the draft law establishing credit information bureaus.
- **Trigger:** The Recipient has issued a request for proposals to establish a private credit bureau.
- **Result Indicator:** Number of private credit bureaus licensed; Baseline (2016): 0; Target (2019): 1

## **Pillar B: Creating an enabling environment for economic opportunities in rural communities**

### ***Helping farmers secure their land rights***

51. **Rationale:** It is estimated that only 10 percent of Malagasy land is currently titled and registered. At the same time, more than 80 percent of all the poor in Madagascar currently secure their livelihoods from agricultural land. Acquiring a land title is time-consuming and expensive. Yet, unsecured land tenure rights impede farmers from making long term investments in their property, thereby adversely affecting the productivity of agriculture that has been falling in Madagascar for the past 30 years.

52. **Reforms:** Land certificates have been introduced in Madagascar in 2005, making land ownership rights more accessible to the rural poor.<sup>39</sup> However, the legal value of these land certificates compared to

<sup>37</sup> The regulatory framework for financial consumer protection is currently being prepared with the technical support of World Bank projects.

<sup>38</sup> Issuing a loan to an SMEs today costs between 30 and 100 dollars in Madagascar. In Turkey, where a PCB has been established, automated credit checks through the bureau have brought the cost of loan issuance down to 5 to 10 dollars.

<sup>39</sup> The 2005 reform has equipped a third of Malagasy Local Governments with local land offices that are entitled to issue land certificates, which are documents formalizing ownership rights to landholders. Since the introduction of land certificates ten years ago, 500 municipalities have issued 120,000 land certificates – compared to only 450,000 land titles issued under the previous system over the entire last century.

land titles obtained under the traditional property system – which remains in existence - has been put into question through inconsistencies in the legal framework for both forms of ownership rights. This DPO series supports a new bill on Titled Property, which clarifies the legal value of land certificates as permanent written proof of rights. In a second step, the DPO series also supports amending the 2006-31 Law on Non-Titled Private Property eliminating a "proof to the contrary" clause that had created legal uncertainty on the use of land certificates as collaterals and would therefore further strengthen their legal validity.

**Support:** The reform is supported by the ongoing World Bank's Madagascar Agriculture Rural Growth and Land Project (CASEF) project (P151469) and by various projects sponsored by the European Union (EU) and the French Development Agency.

- **Prior action:** The Recipient has submitted to Parliament *Projet de Loi No 023/2017 fixant le régime juridique de l'Immatriculation et de la Propriété Foncière Titree*, the draft law on titled private property, requiring the issuance of land certificates as permanent written proof of property rights.
- **Trigger:** The Recipient has submitted to Parliament an amendment to the law n° 2006-031 « *fixant le régime juridique de la propriété foncière privée non titrée* », strengthening the collateral value of land certificates.
- **Result Indicator:** Number of land certificates issued; Baseline (2015): 120,000; Target (2019): 270,000

### ***Alleviating Economic Disparities by Enhancing Budget Transfers to Local Governments***

53. **Rationale:** Close to 80 percent of Madagascar's population lives in rural areas, and rural poverty rates are nearly twice as high as in urban areas. Providing access to basic public services, such as health and education, at the local level can help the poor to increase the human capital needed to access better economic opportunities. However, local governments in the poorest regions often do not have enough resources to maintain and provide those basic services. As of 2016, only 2 percent of public expenditures were flowing directly to local governments.

54. **Reforms:** Madagascar's 1,693 local governments (spread across 22 regions) have a legal mandate to ensure basic public services in sectors such as education, health, and maintenance of small infrastructures. In order to alleviate economic disparities across Local Authorities, the Government established in 2016 a National Equalization Fund (*Fond de Péréquation*), which still has to take up operations. A first critical step to support the operationalization of the Equalization Fund is to achieve transparency at the central government level on all planned and executed transfers to local governments. This Fund is intended to redistribute revenues from four dedicated taxes, collected country-wide, according to an equalization transfer formula to local governments. This should allow resource-poor local governments to improve the quality of their public services. The data disclosed on planned and executed transfers<sup>40</sup>, in turn, will be used to inform the dialogue around the operationalization of the Fund,

<sup>40</sup> The information on planned and executed transfers will be disseminated through public display and through media as well as other means deemed useful (e.g. websites, etc.).

including the pro-poor equalization formula, the eligibility criteria for the transfers and the collection of the four dedicated taxes.

55. **Support:** The reform of the equalization fund is supported by the ongoing World Bank public sector performance project (P150116).

- **Prior action:** The Recipient's Council of Ministers has issued *Décret 2017/867 fixant les modalités de publication des subventions allouées aux Collectivités territoriales décentralisées*, the decree requiring the publication of all planned and executed transfers to local governments.
- **Trigger:** The Recipient has issued a decree clarifying the functioning of the *Fond de Péréquation* (equalization fund across local governments), including the equalization formula, disbursement procedures and the collection of the four dedicated taxes.
- **Result Indicator:** The *Fond de Péréquation* executes transfers to the local governments (% of planned in the FY); Baseline (2016): not active; Target (2019): 80 percent or more (active)

### ***Improving the maintenance of rural roads***

56. **Rationale:** A 2012 study found that half of Madagascar's secondary roads and two thirds of tertiary roads were classified as being in "bad condition".<sup>41</sup> This not only makes access to markets for rural communities difficult, it also decreases substantially the competitiveness of rural products.<sup>42</sup> The Road Maintenance Fund (FER) is in charge of receiving and administering funds for the maintenance of all roads within the national territory. However, the FER is currently not able to effectively fulfill its function and, as a result, communal roads maintenance has been persistently neglected.

57. **Reforms:** The financial audit of road maintenance programs conducted in 2014<sup>43</sup> indicated that the FER has been plagued by transparency issues. Transparency is a pre-requisite for addressing the financing issues that have also been affecting the Fund. The road maintenance charges, which represent more than 90 percent of the FER's own resources<sup>44</sup>, have not been paid regularly by oil companies since 2010, leading to the accumulation of substantial arrears (US\$98 million remained unpaid in 2016). The FER has responded to this lack of funds by not allocating any budget for municipal roads (more than two thirds of the total road network) since 2013. At the same time, Madagascar's poorest local governments have been unable to access FER funds, because of their inability to fund 10 percent of project costs through their own budgets, as mandated by the FER. This DPO series supports government decrees to enhance the FER's transparency and to ensure better management of resources. By establishing clear prioritization guidelines, the resource allocation for municipal road maintenance will be strengthened,

<sup>41</sup> Findings from the "Road network survey campaign" of 2012 under the WB Second Rural Transport Project (APL)- P073689.

<sup>42</sup> Between 2005 and 2010, the transportation costs of a 50kg bag of rice to market increased by 42 percent [Madagascar Country Partnership Framework, 2017].

<sup>43</sup> The audit highlighted the fact that the RMF annual budgets were underestimated over several years because they did not take into account (i) the exemptions granted (exoneration or rescheduling) which significantly affect the volume of revenue through Memorandums of Understanding; and (ii) the remaining cash (34.5 percent of the balance sheet at the end of 2013, i.e. US\$33 millions). In addition, its resources have been used for the purposes for which they were granted, but there are exceptions in kind of work (not maintenance works), the amount of which is US\$5 million between 2010 and 2013.

<sup>44</sup> The contribution from oil companies represents 90 percent of the source of financing for the FER.

including a subsidy system for those local governments which cannot afford to contribute 10 percent of FER project costs from their own budgets. As such, the DPO series will strengthen the operating procedures of the FER, setting the prerequisite foundations for proceeding with reform of the FER's funding base.

58. **Support:** The reform is supported by the ongoing World Bank's Spatial analysis of Transport Connectivity and Growth Potential (P163751).

- **Prior action:** The Recipient's Council of Ministers has issued *Décret modifiant et complétant certaines dispositions du Décret no. 2016-924 portant statut du FER*, the decree amending the FER statute to increase transparency, including to ensure (i) annual publication of a detailed budget with forecasted resources retransferred into the FER, use of retained earnings and planned expenditures for the following year; (ii) annual publication of executed expenditures for the previous year and explanations of any deviations and (iii) publication of prioritization guidelines, including the distribution of expenditures across regions.
- **Trigger:** The Recipient has issued a decree amending the FER's statute to specify the annual fraction of project expenditures allocated to communal road maintenance and requiring the Ministry of Interior and Decentralization and M2PATE to subsidize the required contribution of local governments to FER projects according to the criteria indicated in the prioritization guidelines
- **Result Indicator:** Expenditure of the FER on communal road maintenance (%); Baseline (2016): 0 percent; Target (2019): 10 percent or more.

### **Promoting Rural Electrification**

59. **Rationale:** At 6 percent, Madagascar has one of the lowest rates of rural electricity access in the world. Improving access to affordable and reliable electricity services is critical for raising rural productivity to enable the adoption of modern farming and processing technologies. Electricity also creates opportunities for rural households to diversify into non-farm employment. The ADER is the agency responsible for promoting rural electrification, which it does mainly through investment subsidy schemes. However, despite providing operators with substantial capital subsidies ranging up to 70 percent of investment costs, private participation is held back by a lengthy and convoluted approval processes for licenses and authorizations<sup>45</sup> and an incoherent legal framework with overlapping mandates between the national utility, the Ministry of Energy and ADER.

60. **Reforms:** A number of reforms are needed to allow for a more effective and efficient process for authorizing private concessions that can increase access to electricity services (including renewable energies) in rural Madagascar: (i) access to electricity has to be established as a public service obligation and key objective of sectoral policy; (ii) the mandate and institutional setup of the Development Agency for the Rural Electrification (ADER) have to be defined; (iii) the criteria by which ADER selects technical and financial proposals for the provision of rural energy services have to be more clearly defined and

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<sup>45</sup> The key procedural difference between concessions and authorizations is that concessions are required for larger-scale installations and are subject to approval by the council of ministers.

communicated; (iv) capacity thresholds delimiting the concession and authorization regimes for energy service providers have to be revised. This DPO supports a revision of the electricity law to confirm and further specify ADER's legal status, budget mechanisms and autonomy while clearly delimiting its mandate aimed at fostering rural electrification through competitive public-private partnerships. Subsequently, it supports the issuance of implementation decrees for the revised electricity law and the approval of the National Electrification Strategy (NES) by the Ministry of Energy. The NES will define the approach and objectives for the expansion of electricity services and further lay out its institutional and regulatory underpinnings.

61. **Support:** The revision of the law on electricity is being facilitated through technical support provided by the *Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)* and will in parallel be supported also by the forthcoming Madagascar electricity access project scheduled to reach effectiveness by the end of Q4 FY 18.

- **Prior action:** The Recipient has submitted to Parliament *Projet de Loi No. 026/2017 portant Code de l'Électricité à Madagascar*, the draft law replacing *Loi 98.032*, and establishing a legal mandate for ADER to advance rural electrification through PPP.
- **Trigger:** The Recipient has issued the decrees for implementation of the revised electricity law and the Ministry of Energy approves the National Electrification Strategy.
- **Result Indicator:** Number of concessions and authorizations issued per year for rural areas. Baseline (2016): 10; Target (2019): 40

**Table 5: DPO Prior Actions and Analytical Underpinnings**

Prior actions	Analytical Underpinnings
<b>Pillar A: Strengthening the resilience of individuals against shocks</b>	
<b>PA1.</b> The Recipient has submitted to Parliament <i>Projet de Loi No. 028/2017 relatif à la délivrance des jugements supplétifs d'actes de naissance dans le cadre de l'enregistrement rétroactif de naissance des enfants et des adultes dans le cadre de l'Opération Carte Nationale d'Identité</i> , the draft law allowing for retroactive birth registration, for a period of five years, at district level.	Madagascar Identity Management System Assessment report (World Bank): The report highlighted the cumbersome process for birth registration and retroactive registration, leading to the necessity of easing registration processes both initial registration and retroactive registration. A comprehensive revision of the civil registration legislation was recommended.
<b>PA2.</b> The Recipient's Council of Government has issued <i>Décret no.2017/844 portant création et tenue de l'annuaire des interventions et du registre des bénéficiaires dans le cadre des actions de Protection Sociale du régime non-contributif</i> , the decree establishing a national social registry for social safety net program beneficiaries.	The policy note (World bank, 2014) and the national social protection policy (2015) confirmed the institutional weakness of the Ministry in charge of social protection and the lack of coordination. They recommend a clear and robust institutional framework. Other key analytical underpinnings for this PA are the recent ASAs titled " <i>Analyse comparative de la situation socio-economique dans le Sud de Madagascar</i> " (Comparative analysis of the socio-economic situation in the South of Madagascar - Feb 2017) and "The deep South of Madagascar. Constraints and opportunities" (2017).
<b>PA3.</b> The Recipient's Council of Government has issued <i>Décret no. 2017/851 fixant le Capital Social Minimum des Etablissements de Monnaie Electronique (EME)</i> , the decree implementing <i>Loi no. 2016-056</i> , establishing the minimum capital requirements for EMEs; and the CSBF has issued: (i) instructions 002/2017 for the licensing process for EMEs; and (ii) instructions 003/2017 for the operating procedures for trust accounts.	The 2015 Madagascar FSAP recognized the importance of developing the regulatory framework on the use of electronic money. It highlighted the key role of the central bank in structuring and developing electronic money, in its capacity as financial sector supervisor and payment oversight authority, in cooperation with the other competent authorities and the private sector. The FSAP also recognized that the current initiatives to create the statutes of an EMI and to encourage the banks, the MFIs, and future EMIs to use agents are promoting an environment conducive to financial inclusion and should be preferred to direct government interventions. These initiatives will require an effective supervision mechanism and the enhancement of consumer protection measures.

<p><b>PA4.</b> The Recipient has submitted to Parliament <i>Projet de Loi No. 024/2017 régissant l'activité et le contrôle des Bureaux d'Information sur le Crédit</i>, the draft law establishing credit information bureaux.</p>	<p>The IFC gap analysis of credit information system in Madagascar (2016) recommended a strategy, road map, and action plan to the Central Bank. The first recommendations suggested was the enabling of the legal framework. A new law drafted with a TA provided by the IFC has been finalized by Central Bank.</p>
<p><b>Pillar B: Creating an enabling environment for economic opportunities in rural communities.</b></p>	
<p><b>PA5.</b> The Recipient has submitted to Parliament <i>Projet de Loi No 023/2017 fixant le régime juridique de l'Immatriculation et de la Propriété Foncière Titree</i>, the draft law on titled private property, requiring the issuance of land certificates as permanent written proof of property rights.</p>	<p>World Bank analysis of the land sector (2014) considered the land certificate as a promising solution for securing most of rural lands at a low cost and recommended a conducive legal framework to facilitate its scaling up.</p>
<p><b>PA6.</b> The Recipient's Council of Ministers has issued <i>Décret 2017/867 fixant les modalités de publication des subventions allouées aux Collectivités territoriales décentralisées</i>, the decree requiring the publication of all planned and executed transfers to local governments.</p>	<p><i>Madagascar vers un agenda de relance économique, 2010 (Décentralisation)</i> – Madagascar toward an agenda of economic recovery (Decentralization): This analytical piece makes a case on the asymmetry of repartition of means between central State and local government which forbids the later from meeting the needs of their constituencies. The lack of equitable repartition is seen as contributing to the prevalence of political and social crisis.</p> <p>Madagascar Decentralization framework paper: Decentralization in Madagascar – Policy options to consider (P148650): The policy note also makes a case for fiscal decentralization. One of the policy options given as a recommendation was: to reduce geographic inequities in funding and provision of public services—bring up regions where funding and quality are low, without suppression of regions that have prospered. Devolved expenditures per capita are not correlated with regional poverty rates; indeed, the three richest regions are among the six former provincial capitals that have extraordinarily high resources per capita. Allocation becomes an arbitrary or political decision by officials at national level, and do not apply any equalization formula.</p>

<p><b>PA7.</b> The Recipient's Council of Ministers has issued <i>Décret modifiant et complétant certaines dispositions du Décret no. 2016-924 portant statut du FER</i>, the decree amending the FER statute to increase transparency, including to ensure (i) annual publication of a detailed budget with forecasted resources retransferred into the FER, use of retained earnings and planned expenditures for the following year; (ii) annual publication of executed expenditures for the previous year and explanations of any deviations and (iii) publication of prioritization guidelines, including the distribution of expenditures across regions.</p>	<p>The World Bank-financed audit of the FER recommends (i) the development of annual programs taking into account the remaining cash and derogations, and (ii) close monitoring of debt collection from petroleum product distributors in order to develop a much more ambitious road maintenance program than in past years.</p>
<p><b>PA8.</b> The Recipient has submitted to Parliament <i>Projet de Loi No. 026/2017 portant Code de l'Électricité à Madagascar</i>, the draft law replacing <i>Loi 98.032</i>, and establishing a legal mandate for ADER to advance rural electrification through PPP.</p>	<p>The Government of Madagascar's NEP as well as the World Bank's latest SCD have both highlighted the need to explicitly recognize the extension of access to electricity as public service obligation, and to strengthen and streamline the institutional mandates and procedures for promoting electricity services in rural areas.</p>

#### 4.3 LINK TO CPF, OTHER WORLD BANK OPERATIONS AND THE WBG STRATEGY

62. **The proposed DPO is fully aligned with the World Bank's new CPF for Madagascar, which will operationalize the SCD's findings and recommendations.** The CPF that was discussed by the Executive Board of Directors on June 27, 2017, confirms the WBG commitment to investing resources over a sustained period of time in Madagascar with the overall objective of increasing the resilience of the most vulnerable and promoting inclusive growth. The WBG programs outlined in the CPF help lay the foundations for long-term institutional development by promoting equitable access to basic infrastructure and service delivery, and stimulating private sector growth. It does so through two Focus Areas: i) increase resilience and reduce fragility; and ii) promote inclusive growth. The first Focus Area will seek to increase the resilience of livelihood in rural and urban areas and to expand the state's capacity to mobilize resources and deliver services at the local level with greater accountability. The second Focus Area will aim to facilitate and support the development of economic opportunities by the private sector in rural and urban areas. As such the proposed DPO is fully aligned with the CPF and will directly support both its focus areas.

63. **Each of the proposed actions and reforms under this DPO are supported by TA projects that are ongoing or under preparation.** Under the first pillar, the reform of the civil registry relies on TA provided by UNICEF on the retroactive birth registration and on an analysis of the existing civil registry law done by AfDB. The WB social safety net project (P149323) support the reform of the social protection registry. The access to finance related reforms are supported by the ongoing (FIRST-funded) project on payment systems (P160684) that will shortly be complemented by an IDA investment lending operation on financial

inclusion, currently under preparation (P161491) and expected to be approved by end-February 2018. The same lending operation will support and complement the ongoing IFC TA on the regulatory framework for the establishment of a PCB. Under the second pillar, the proposed land reform is supported by the ongoing CASEF project (P151469). The reform of the equalization fund is supported by the ongoing WB public sector performance project governance (P150116). Regarding access to infrastructure, on one hand the proposed reforms of rural roads will benefit from close coordination with the World Bank technical staff; on the other hand, the revisions of the law on electricity rely on technical support provided by GIZ and will in parallel be supported also by the forthcoming Madagascar electricity access project scheduled to reach effectiveness by the end of Q4 FY 18.

**64. The World Bank has a strong engagement in the agriculture sector in Madagascar and a significant commitment to further strengthening and better targeting client response to the main challenges facing the sector in the future.** In June 2016, the World Bank in collaboration with the Government of Madagascar completed a major Non-Lending TA project report to update the knowledge base on the structure and performance of the agriculture sector during recent years, and to identify opportunities for accelerating inclusive, market-led agriculture growth and employment. The NLTA confirms the critical importance of agriculture in the economy of Madagascar, including a strong potential for agribusiness development. Following the recommendations of the NLTA, the Bank is preparing the Madagascar Smallholder Inclusion in Value Chains Study (P160761) to assess ways to boost participation of small and medium scale farmers into higher value supply chains, with a focus on rice and dairy. A study on El Niño Impacts on Food Security, Crops and Livestock in Madagascar (P160145) will assess the climate and market vulnerability of agricultural households in the Deep South, to draw specific pathways that can be pursued by farm households, their value chain partners, and government, to improve resilience in the future. In terms of investment lending operations, in addition to the CASEF Agriculture Rural Growth and Land Management Project for Madagascar Project (P151469) mentioned above, the Emergency food security and social protection project (P147514) aims to increase rice productivity in selected irrigation sites and their surrounding watersheds while the Sustainable Landscape Management Project (P154698) has the objective to increase access to improved irrigation services and agricultural inputs, and strengthen the integrated management of natural resources in the selected landscapes by the local actors, and to provide immediate and effective response to an Eligible crisis or Emergency.

**65. This operation is complementary to a parallel programmatic DPO on fiscal sustainability and investment initiated in FY17, and whose second and final operation is scheduled to be submitted for Board approval on November 16<sup>th</sup>, 2017.** The fiscal sustainability DPO aims to strengthen Madagascar's fiscal framework and to enhance the environment for investments. The DPO supports on one hand reforms that enhance tax administration, reduce selected regressive expenditures, and strengthen investment spending and, on the other hand, it focuses on stimulating investment and growth by improving the operational efficiency of JIRAMA, the under-performing state utilities company, strengthening commercial justice, and promoting the stability of the financial sector.

#### **4.4 CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS**

**66. This operation supports the implementation of the Government's NDP and several sectoral strategies which were developed through extensive consultations.** The consultations on the NDP were held in the capital and regions, inviting sector ministry experts, civil society, academia, private sector representatives as well as development partners. The formulation of most of the sectoral strategies supported by this operation also underwent the same process. The diagnostic report that recommends

the reform of the birth registration legal framework involved, in addition to the stakeholders identified above, discussion panels composed of the beneficiary of civil registration service. All draft laws that have economic aspects are discussed at the *Commission de Réforme du Droit des Affaires* (commission in charge of the reforms of business law), a committee headed by the Prime Minister and involving representatives from ministries, academia and the most influent private operators' association, ahead of the presentation in the Cabinet Council. Regarding this operation, these include the ones on land, electricity, and PCB. The preparation of the decrees supported by this operation was associated with inter-ministerial committees consultation, strong involvement of development partners and Civil Society Organizations (e.g. decree on social registry), and of implementing agencies (e.g. decrees on the Road Maintenance Fund and on the e-money).

67. **The proposed operation is part of a program of coordinated reform dialogue with other providers of budget support.** The *Cadre de Partenariat* (Partenarship Framework), co-chaired by the Ministry of Finance and Budget and the World Bank, provides a forum for collaboration among potential providers of budget support. The members are the AfDB, France, the EU, and the World Bank. The preparation of this DPO reform program was closely coordinated with this *Cadre de Partenariat* and with the IMF, and reflects the convergence of views on what are the priorities and feasible reforms for the country at this juncture.

## 5. OTHER DESIGN AND APPRAISAL ISSUES

### 5.1 POVERTY AND SOCIAL IMPACT<sup>46</sup>

68. **The first reform of this DPO is about birth registration. Birth registration makes individuals more visible, and the state more accountable for provision of health, education, other services, safety nets, and legal protection.**<sup>47</sup> Civil registration can have positive effects on legal entitlements and access to services. Although registration of birth does not guarantee access to education, health, social protection, or citizen participation, without a birth certificate those fundamental rights can be beyond reach.<sup>48</sup> Therefore, civil registration can benefit the formalization of the economy and thus promote economic inclusion. Legal identities are in some instances the key to full participation in the formal economy, e.g., when only registered individuals are able to open bank accounts, obtain credit, purchase property, and invest in businesses. Depending on the pattern of access to a legal identity across socioeconomic characteristics, civil registration may thus reduce socioeconomic inequalities and increase political participation and accountability. While the proportion of births registered in Madagascar is high by regional standards, the proportion of children that are not registered in any way is higher among children from the poorest households, suggesting that a significant expansion of coverage would benefit mainly the poorest segments of the population.

69. **There is strong evidence that social safety nets, non-contributory transfers targeted mainly to the poor, can increase the resilience of the poor and increase their opportunities.** Safety nets have the potential to contribute to overall economic growth by encouraging asset accumulation, addressing failures in insurance markets, creating public goods at the community level (e.g., through public works programs), and relaxing political constraints on reforms.<sup>49</sup> In the presence of multiple schemes, unified

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<sup>46</sup> This section reports an excerpt of the detailed PSIA conducted for this operation that is circulated as a separate document.

<sup>47</sup> Harbitz & Boekle-Giuffrida, 2009.

<sup>48</sup> Harbitz & del Carmen Tamargo, 2009.

<sup>49</sup> Alderman & Yemtsov, 2014.

registries potentially increase the overall impact of the social safety net architecture through various channels: reduction in administrative costs; reduction in costs associated with registration; improved targeting; reduction in opportunity costs for beneficiaries; reduction in opportunities for graft and corruption, prevention of welfare fraud and accidental transfers; and increased capability for monitoring and evaluation.

**70. Promoting the use of e-money, the electronic alternative to cash, offers some promise to strengthen financial inclusion in developing countries.** There are several pathways through which e-money can benefit the poor and strengthen coping mechanisms: first, lower transaction costs may contribute to expand the supply of financial services to the poor and, in the context of cash transfer programs, lead to reduced administrative costs through economies of scale. Second, opportunities to digitally audit payments may reduce opportunities for corruption and are already used to decrease leakage in cash transfer programs. Third, reductions in transfer times potentially reduce transactional risks, increase authorities' ability to support those affected by shocks, and expand the use of transfers within private networks as a means to cope with shocks. There is also empirical evidence for benefits of the use of e-money in cash transfer programs vis-à-vis traditional means of delivery.

**71. Access to credit may allow households to borrow in bad times and repay in better times, increasing resilience to shocks.**<sup>50</sup> A large number of empirical studies confirm that lack of access to credit often perpetuates poverty, and credit constraints are associated with a reduced ability to smooth consumption and/or income. Evidence from cross-country studies shows that credit bureau coverage is associated with financial deepening and this, in turn, has positive effects on growth on average.<sup>51</sup> Beck, Demirgüç-Kunt, and Levine evaluate the impact of financial development on the poor by estimating the relationship between finance and changes in both income distribution and poverty levels. They find that financial development reduces income inequality, benefits disproportionately those that are relatively poor, and alleviates absolute extreme poverty.<sup>52</sup>

**72. A large literature exists on the effects of formal tenure recognition that positively affect welfare possibly via an investment and perceived tenure security effect on agricultural productivity**<sup>53</sup>. Formalization of land ownership via registration and titling can lead to important productivity gains, increase investment in land, and increase land values.<sup>54</sup> The prior action of this DPO, i.e. the submission of the new law on title property which preserves the legal value of land certificates as permanent written proof of rights, is likely to have a pro-poor impact to the extent that access to land certificates is faster and cheaper and this allows the poor to sell, lease out or keep cultivating their land.

**73. The early empirical literature suggests that decentralization holds potential for poverty reduction.** Conceptually, decentralization is considered to affect poverty through two main channels: i.e. participation in public decision-making and increased efficiency in the provision of local public services. At the same time, local capture of public resources is a risk,<sup>55</sup> and so are the exclusion of the poor in the presence of local elites and an increasing fragmentation of society. A careful reading of the empirical literature suggests that decentralization holds potential for poverty reduction but that the impact of reforms will ultimately depend on the local context and on what exactly is devolved to local authorities. For instance, expenditure authority should go hand-in-hand with revenue collection and mechanisms for

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<sup>50</sup> Morduch, 1994.

<sup>51</sup> Levine (1997, 2005).

<sup>52</sup> Similar findings are also reported by Clarke, Xu, and Zhou (2006).

<sup>53</sup> Lawry, Samii et al. (2016).

<sup>54</sup> Brasselle, Gaspart et al. (2002).

<sup>55</sup> Bardhan and Mokherjee, 2005.

popular oversight. Decentralization usually requires a strong civil society that is active at the local level, a constraint in Madagascar in the past.

**74. The improvement of rural roads has a positive effect on poverty reduction via economic growth.**

The impact of road projects depends on the distribution of household endowments and location-specific factors. In Madagascar, poverty is positively correlated with greater remoteness from nearest major centers, particularly for agricultural households (World Bank, 2016). The Malagasy road system is vast (32,000 km of roads), yet only about 13 percent is paved. The DPO actions are expected to have a direct pro-poor effect to the extent that access and quality of rural roads will be improved and access cost, measured in terms of traveling time, will be reduced. The amendment of the FER's statute will give access to poor local governments to financing of municipal road maintenance funds. It will be crucial to clearly pre-determine the criteria that define a poor commune. Moreover, such communes will need to have the administrative capacity to manage funds and implement projects. By doing so, the DPO will be more likely to have a beneficial effect in terms of both poverty reduction and resilience.

**75. Promoting access to electricity in rural areas has a potential significant impact on poverty and resilience.**

High-quality energy sources can help the poor save considerable amounts of money. While electricity contributes significantly to growth and poverty reduction, Madagascar electrification system is mediocre and represents an obstacle to the economic and social development of the country. In the case of Madagascar, increased access to electricity is associated with a small but positive change in consumption. The DPO actions are expected to have positive pro-poor effects to the extent that they will increase access to electricity and improve the quality of the energy source. The overall impact will depend on the cost associated with access to electricity. The poor will likely benefit more from access to electricity via increased agricultural productivity, access to a greater variety of rural non-farm activities as well as educational and health effects if important constraints to improving productivity will be lifted. These constraints include, among other things, access to credit, to improved inputs, to extension services, security of land rights.

**76. The Poverty and Social Impact Analysis (PSIA) has placed particular attention on the gender-related impact of some of the reforms proposed by this DPO.**

There is no significant gender gap in birth certification, i.e., no evidence for parents' willingness to obtain birth certificates for girls vis-à-vis boys (or vice-versa) and, therefore, an expansion of coverage is unlikely to have any significant gendered effects. On the other hand, the safety net programs particularly benefit women as in most cases the cash payments go to the female head of the household. Evidence shows that women are investing large part of the cash in purchases that benefit directly their children, such as more diverse food consumption, expenditures for school materials, and health related expenditures. Providing women with cash has shown to improve women's self-esteem, decision making power and mobility – all important aspects for strengthening resilience and productive inclusion. On e-money, there is some evidence that the technology, if used to make payments within cash transfer schemes, may allow women recipients to conceal receipt of cash transfers and may thus help to improve their authority regarding household expenditure decisions. Land certificates can be issued to either a man or a woman.<sup>56</sup> A partial solution to improve gender equality in land ownership under the new regime would be requiring issuance of at least one certificate to a woman each time a household applies for more than one certificate. Rural

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<sup>56</sup> Approximately 20 percent of land certificates are issued exclusively to women. For land owned by couples, the certificates are most commonly issued under the name of the man (82 percent of cases) and only in the 6 percent of cases they are issued under the name of the couple. The World Bank is currently conducting awareness campaigns to promote the practice of certificates being issued under the name of both, the man and the woman.

electrification has the potential to be pro-women to the extent that most of the burden to collect firewood currently falls on women. Electrification could empower women by freeing up a significant part of their time, therefore allowing them to participate productively to market activities. The latter is more likely to occur if many job opportunities are created in rural areas and if access to jobs in urban areas is easier. Job opportunities in rural areas and accessibility to urban jobs are likely to increase as a result of improved maintenance of rural roads.

## 5.2 ENVIRONMENTAL ASPECTS

77. **The policy actions supported by this operation are not likely to have significant positive or negative effects on the environment, forests, and natural resources.** The civil registry and social protection policies addressed under the first pillar focus on institutional reforms without any expected short-term direct or indirect environmental impact. Similarly, for the access to finance-related reforms, no significant adverse environmental impacts are anticipated. The results of this proposed program under the second pillar, related to land reform and rural roads are also unlikely to have significant effects on the environment as the focus is on maintenance of already existing infrastructures. In rural electrification, it is proposed to install new infrastructures with simple technical characteristics and the potential negative impacts are site specific and minimum. According to the Malagasy Environment Code, all investment projects, private or public, likely to harm the environment should prepare an Environmental and Social Impact Assessment (ESIA). It is set up by decree No. 2004-167 of February 3, 2004 on Development of Investment Compatibility with the Environment (MECIE) which stipulates the requirement to prepare an ESIA. The ESIA approved by the Ministry of Environment with the environmental permit is a document required to be joined to any exploitation authorization. Therefore, any environmental and social risks and adverse negative impacts for any future or existing investments could be managed, and potential impacts could be reduced in manner acceptable through the required ESIA.

78. **In the energy sector, the environmental and social impacts of ADER's anticipated activities are expected to be moderate, site-specific, and manageable to an acceptable level with generic mitigation measures.** Following Environmental National Law (MECIE), and the review of potential equipment and activities to improve rural electrification on the basis of the current activities developed under ADER mainly small equipment or infrastructures, no potential large scales, significant and/or irreversible impacts could be expected to arise on the support in rural electrification. The Environmental National Law (MECIE) could manage the low size and site specific nature of foreseen social and environmental risks and impacts. Moreover, within the sector, JIRAMA has an operational Environmental, Prevention and safety Department with experiences to implement the Environmental National Law. The environmental national law is managed by a strong and experimented department (National Office of Environment: NOE), an independent unit under the Ministry of Environment of Madagascar. NOE oversees the application of Environmental National Law (MECIE) in the country.

## 5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

79. **Addressing the fiduciary risk and strengthening the PFM system has been part of the ongoing dialogue and has benefitted from TA over the last decades.** Tax administration, budgeting, treasury, and cash management reforms are underway. The 2014 Public Expenditure and Financial Accountability (PEFA) self-assessment showed that revenue forecasting has improved. The budget law is published on the Ministry of Finance website in a timely manner, and the Citizen's Budget<sup>57</sup> and Citizen's Budget

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<sup>57</sup> As part of broader efforts to increase budgetary transparency, this document recounts, in a simplified manner, the recent developments and the economic and fiscal outlook, new fiscal and customs measures, the reorientation of public spending, and the level of indebtedness.

Execution reports are published. The Resilience DPO (P153084) supported the timely publication of Quarterly Budget Execution Reports and the annual consolidated accounts. The Supreme Audit Institution (*Cour des Comptes*) published its first report covering the year 2014 in May 2016. The audited final accounts for 2015 was validated by Parliament in 2017, thereby catching up on the delay in auditing reports following the political crisis period.

80. **The Government must continue to respond to challenges in some areas.** The 2014 PEFA self-assessment indicates that limited progress has been made on improving the credibility of the budget. This finding reflects the policy adopted by the authorities during the political crisis, where cash was tightly controlled as revenues declined. A 2017 PEFA self-assessment is currently underway. Further progress is required to consolidate and publish the accounts of quasi-fiscal entities, such as SOE and special funds. There are still a number of accounts that operate outside of the Government's treasury system, with efforts to consolidate this process underway. The Government has made progress in arrears management through the negotiation of special government bonds, and the establishment of an escrow account with the Treasury to meet value-added tax refunding and avoid arrears accumulation.<sup>58</sup> The recently approved PFM reform strategy (2016-2019) includes a number of reforms to address these challenges.

81. **Progress has been made in strengthening the safeguards framework at the Central Bank of Madagascar (CBM). Governance arrangements and central bank autonomy have been strengthened through the new Central Bank Act.** The Central Bank has also reinforced its audit oversight and control environment, and is committed to undertake the necessary steps to implement International Financial Reporting Standards. However, the timeliness of audit completion and publication of audited financial statements needs further improvement. The functioning of the foreign exchange market has improved since the Central Bank discontinued buy-back operation in September 2016. The 2017 IMF safeguards assessment noted that foreign exchange investment practices, and currency procurement practices required improvement, which the Central Bank is committed to reforming.

82. **The World Bank is working with other partners to provide coordinated TA.** The ongoing Public Sector Performance Project (P150116) will help advance improvements in revenue management, improved controls at the local level and performance monitoring. The IMF's Technical Assistance Center for Southern Africa has a substantial TA program covering Public Investment Management (through coordinated support with the World Bank), fiscal risks management, and cash and arrears management. The US Treasury has seconded an advisor to support Treasury Single Account reforms. The AfDB and EU are supporting civil service reforms. The EU and the IMF are also engaged in medium-term budget reforms.

83. **The proposed grant will be disbursed following the standard IDA procedures for DPO.** A grant in the amount of SDR 31.9 million (US\$45.0 million equivalent) will be made available upon effectiveness and, provided IDA is satisfied with the implementation of the development policy financing program and the appropriateness of the Recipient's macroeconomic policy framework, disbursed as a single tranche following the submission of an acceptable withdrawal application by the Government. IDA will disburse the proceeds into the treasury account US dollar-denominated account designated by the Recipient that is part of the country's foreign exchange reserves account at the CBM. The dedicated account will be used exclusively for the proceeds of the DPF grant. The Recipient shall ensure that upon the deposit of the grant

<sup>58</sup> In 2015, the stock of arrears was estimated at 3 percent of the GDP. Arrears on January 1, 2016 were of MGA 1,105 billion (General Directorate of Budget) of which 380 billion (i.e. 34 percent of total arrears, or 1.2 percent of GDP according to IMF-ECF document) were repaid in 2016. At the end of 2016, the stock of arrears corresponds to 14 percent of total expenditure. No additional arrears were accumulated in 2016. An additional 32 percent of remaining stock is expected to be cleared in 2017 based on 2017 Budget Law. (Note that the budget process covered here only for the Government at Central level).

proceeds into said account, an equivalent amount is credited in the Recipient's budget management system, in a manner acceptable to IDA. The Recipient will report to IDA on the amounts deposited in the foreign-currency account and credited to the budget-management system within 30 days of the disbursement.

84. **The financial support provided under this operation is not intended to finance goods or services on the standard negative list.** If the proceeds of the grant are used for ineligible purposes as defined in the Financing Agreement, IDA will require the Recipient, promptly upon notice from IDA, to refund an amount equal to the ineligible expenditure. Amounts refunded to IDA upon such request shall be cancelled. At the request of the Association, an audit of the dedicated account could be carried out by the Recipient and the result of such audit will be furnished to the Association within four months of the request. Considering the limited capacity of the Supreme Audit Institution (*Cour des Comptes*), a legally registered, private and independent audit company meeting appropriate international standards will be contracted to perform the audit, in accordance with the Terms of Reference agreed upon with the Association. All audit costs will be borne by the Government of Madagascar.

#### 5.4 MONITORING, EVALUATION AND ACCOUNTABILITY

85. **Progress on the results indicators will be monitored and evaluated jointly by the Recipient and the World Bank.** The Government has established an Economic Council team, which consists of high level officials that are responsible for spearheading and implementing the reform agenda. This team comprises of members from the Ministry of Finance, the Central Bank, the Presidency and other relevant ministries. The Government's team is well-coordinated, and as the experience in implementing DPOs with the World Bank deepens, they are increasingly well prepared to obtain and share data to monitor implementation against the agreed results indicators. The World Bank closely follows this progress through supervision activities, and where relevant, joint monitoring activities are carried out with partners in the *Cadre de Partenariat*. Some of the result indicators in this operations will be available as the reforms are implemented. The indicator on the volume of the transactions on e-money accounts is monitored through the CSBF. The statistics on the delivery of land certificates is regularly provided by the Land Observatory.

86. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank DPO may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the World Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

#### 6. SUMMARY OF RISKS AND MITIGATION

87. **The overall risk rating for the operation is 'substantial,' with seven main sources of risk that are inter-connected and that could potentially jeopardize the expected outcomes and benefits of this operation.** The main risks are (i) political and governance, (ii) macroeconomic; (iii) technical design of

program; (iv) institutional capacity for implementation and sustainability; (v) fiduciary; (vi) stakeholders and (vii) weather-related shocks and natural disasters. Measures to mitigate these risks are outlined below. The potential benefits of the proposed operation outweigh the residual risks and warrant IDA's assistance.

<b>Risk categories</b>	
1. Political and governance	High
2. Macroeconomic	Substantial
3. Sector strategies and policies	Moderate
4. Technical design of program	Substantial
5. Institutional capacity for implementation and sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and social	Moderate
8. Stakeholders	Substantial
9. Others (i.e. vulnerability to weather-related shocks and natural disasters)	Substantial
<b>Overall</b>	<b>Substantial</b>

88. **Political tensions and weak governance represent a high risk to some of the critical reforms proposed under this operation.** Madagascar has a long history of disruptive political transitions. The country also has deep rooted governance challenges that contribute to political fragility.<sup>59</sup> Key drivers of fragility include influential networks that shift alliances to access rents, social fragmentation, growth of a trafficking economy, and a nascent system of checks and balances, as discussed in the CPF, June 2017. With the relative stability in recent years, the country has been able to make significant progress and initiate important reforms. However, the upcoming election, planned toward the end of 2018/early 2019 may intensify some of these drivers of fragility and slowdown the reform momentum. To mitigate these risks, the World Bank is constantly coordinating with the IMF and the other partners to maintain the reforms supported by this operation on the top of ongoing policy agenda. The World Bank Public Sector Performance project (P150116) also contributes to strengthening governance in Madagascar by encouraging fiscal decentralization.

89. **Macroeconomic risks are substantial, and are closely related with the political situation.** The fiscal framework is based on an upward trajectory of growth, which is expected to contribute to higher revenues and be reinforced by a scale-up of investment activity. The needed increase in public and external financing is expected to be met largely through development partners' support to the infrastructure spending scale-up. However, growth prospects could plummet in the event of political instability and donors withdrawal. Delays in reforms to JIRAMA and Air Madagascar could continue to drain the public finances. To mitigate the impact of the risks, it will be important to continue SOE reforms, and to support efforts to applying monetary and fiscal policies flexibly and responsibly to respond to shocks. To advance these reforms, the WB maintains dialogue with the client through WB DPOs, TA and investment projects.

90. **The risk of the technical design of the operation is also substantial.** The design requires the coordination of several different line ministries and, given the relatively tight timeline for the completion of critical reforms, a deep commitment from all the relevant stakeholders to abide to the agreed

<sup>59</sup> Key drivers of fragility include influential networks that shift alliances to access rents, social fragmentation, growth of a trafficking economy, and a nascent system of checks and balances, as discussed in the CPF, June 2017

milestones is required. This operation mitigates this risk by working closely with line ministries and technical counterparts, making sure that the benefits of the proposed reforms are well understood and supported at all levels. Most of this DPO's reforms are accompanied by dedicated TA programs by the World Bank and other international partners.

91. **Institutional capacity is weak and represents a significant risk.**<sup>60</sup> Weak capacity, particularly at the technical level, poses the risk that the actions supported by this program might not be implemented as successfully as expected or in the agreed timeframe, or that the capacity constraints prevent the attainment of the expected results. This operation mitigates these risks in two ways. First, it seeks to attain the strongest possible actions needed to build the reform momentum without overwhelming the capacity of the post-crisis government. Second, it is complementary to other projects and TA provided by IDA and development partners, which together constitute a more holistic support environment than one operation can offer.

92. **Fiduciary risks remain substantial, despite the ongoing implementation of PFM reforms.** While there has been progress in implementing PFM reforms, the remaining fiduciary weaknesses are significant. They are partially mitigated by continued donor assistance in public financial management and public administration reforms, including the World Bank Public Sector Performance project (P150116).

93. **The reforms supported by this DPO series touch on important special interests and stakeholder risk is substantial.** This operation supports many reforms that have been so far blocked by powerful vested interests in Madagascar. If these interests resurface, the implementation of this reform agenda can be endangered. To mitigate this risk, the international community will need to continue close monitoring during reform implementation and maintain a coalition for change, encompassing the Malagasy public and the government.

94. **Madagascar's vulnerability to natural disasters and weather-related shocks represents another substantial risk for the operation.** Madagascar ranks among the countries most exposed to droughts, floods and cyclones. Severe natural hazards present threats to public health, food security, and the government's poverty reduction goals. The cyclone that hit the island in 2017 has provoked significant damages and several losses. The immediate necessity of responding to environmental shocks like the recent cyclone could draw scarce administrative resources away from the reform program and threaten its long-term continuity. This risk is partially mitigated by the ongoing dialogue on enhancing resilience to natural disasters, and support provided by the World Bank and other development partners to the Government. For example, the World Bank is currently supporting the rehabilitation of cyclone and flood early warning systems and hydro meteorological station nationwide and the possibility of a Catastrophe Deferred Drawdown Option (CAT DDO) for Madagascar is under discussion with the World Bank.

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<sup>60</sup> In Madagascar, draft laws are submitted by the relevant Ministry for approval to the Council of Government and the Council of Ministers. On approval by the Council of Ministers, the Prime Minister submits the law to the Presidents of the National Assembly and the Senate for voting on both floors. Once approved by both houses, the President enacts the law by signing it. This DPO uses the submission of laws to Parliament to assess the completion of prior actions. This formulation is based on Madagascar's track record in passing laws as they are submitted to Parliament and respects Madagascar's democratic process. Nonetheless a residual risk remains that laws are not passed or are modified significantly in Parliament. The World Bank team will monitor closely the Parliamentary process of the relevant laws. Decrees are submitted by the relevant Ministry for enactment by the Council of Government. As specified in the Constitution, some decrees also require approval by the Council of Ministers.

# ANNEX 1: POLICY AND RESULTS MATRIX

Lead & Rationale	Prior Action (October 2017)	Trigger (May 2018)	Results Indicator (2019)
<b>Pillar A: Strengthening the resilience of individuals against shocks</b>			
<b>Issue:</b> Civil Registration System  <b>Rationale:</b> Registration in the civil registry allows people to access essential public services ( e.g. education, health and social protection), to exercise their right to vote in elections and it also represents a critical element towards the establishment of a national ID system that, in turn, allows access to a wider range of services, including formal financial services.	<b>PA1:</b> The Recipient has submitted to Parliament <i>Projet de Loi No. 028/2017 relatif à la délivrance des jugements supplétifs d'actes de naissance dans le cadre de l'enregistrement rétroactif de naissance des enfants et des adultes dans le cadre de l'Opération Carte Nationale d'Identité</i> , the draft law allowing for retroactive birth registration, for a period of five years, at district level.	<b>T1:</b> The Recipient has submitted to Parliament a revision of the law n° 1961-025 « <i>relative aux acts de d'état civil</i> », prolonging the time window for registering new births, organizing outreach services for birth registration, implementing a single identification number at birth and establishing a centralized system for the monitoring of new registrations.	Establishment of centralized system for the monitoring of new birth registrations;  Baseline (2016): No Target (2019): Yes
<b>Issue:</b> Social Protection Programs  <b>Rationale:</b> The Government as well as multiple donors and international NGOs manage a variety of social protection schemes that have been largely uncoordinated and thus fragmented. Given the magnitude of the country's poverty, vulnerability to climate change and disasters, as well as the constraints on financial and human resources, a better and more effective coordination is needed.	<b>PA2:</b> The Recipient's Council of Government has issued <i>Décret no.2017/844 portant création et tenue de l'annuaire des interventions et du registre des bénéficiaires dans le cadre des actions de Protection Sociale du régime non-contributif</i> , the decree establishing a national social registry for social safety net program beneficiaries.	<b>T2:</b> The Recipient has submitted to Parliament a new law on (non-contributory) social protection to strengthen the coordinating function of the Ministry of Population, Social Protection and the Promotion of Women regarding social safety net programs.	Number of households registered in the national social registry  Baseline (2016): 0 Target (2019): 200.000
<b>Issue:</b> Electronic Money Accounts  <b>Rationale:</b> Access to e-money accounts provide households with a safe store of value and promote the accumulation of savings. It also acts as a first step towards more advanced financial services, including credit, as they can be used at lower fees in locations not yet reached by traditional financial services. Access to such e-money accounts can help individuals and households to strengthen their resilience against shocks.	<b>PA3:</b> The Recipient's Council of Government has issued <i>Décret no. 2017/851 fixant le Capital Social Minimum des Etablissements de Monnaie Electronique (EME)</i> , the decree implementing <i>Loi no. 2016-056</i> , establishing the minimum capital requirements for EMEs; and the CSBF has issued: (i) instructions 002/2017 for the licensing process for EMEs; and (ii)	<b>T3:</b> The Recipient publishes decisions on all EME licensing requests received by end-March 2018.	Volume of transactions on e-money accounts (millions)  Baseline (2016): MGA 1,125 bn Target (2019): MGA 1,945 bn

	instructions 003/2017 for the operating procedures for trust accounts.		
<b>Issue:</b> Private Credit Information Bureau  <b>Rationale:</b> 82 percent of loans in Madagascar required collateral as of 2013, leaving many poor unable to access credit. Under these circumstances, an individual's past repayment history can serve as "reputational collateral" to induce financial institutions to accept loan applications.	<b>PA4:</b> The Recipient has submitted to Parliament <i>Projet de Loi No. 024/2017 régissant l'activité et le contrôle des Bureaux d'Information sur le Crédit</i> , the draft law establishing credit information bureaus.	<b>T4:</b> The Recipient has issued a request for proposals to establish a private credit bureau.	Number of private credit bureaus licensed  Baseline (2016): 0 Target (2019): 1
<b>Pillar B: Creating an enabling environment for economic opportunities in rural communities</b>			
<b>Issue:</b> Land Rights  <b>Rationale:</b> Unsecured land tenure rights impede farmers from making long term investments in their property, thereby adversely affecting the productivity of agriculture that has been falling in Madagascar for the past 30 years.	<b>PA5:</b> The Recipient has submitted to Parliament <i>Projet de Loi No 023/2017 fixant le régime juridique de l'Immatriculation et de la Propriété Foncière Titree</i> , the draft law on titled private property, requiring the issuance of land certificates as permanent written proof of property rights.	<b>T5:</b> The Recipient has submitted to Parliament an amendment to the law n° 2006-031 « <i>fixant le régime juridique de la propriété foncière privée non titrée</i> », strengthening the collateral value of land certificates.	Number of land certificates issued  Baseline (2015): 120,000 Target (2019): 270,000
<b>Issue:</b> Transfers to Local Governments  <b>Rationale:</b> Providing access to basic public services such a health and education at the local level can help the poor build up the human capital needed to access better economic opportunities. However, local governments in the poorest regions often do not have enough resources to maintain and provide those basic services.	<b>PA6:</b> The Recipient's Council of Ministers has issued <i>Décret 2017/867 fixant les modalités de publication des subventions allouées aux Collectivités territoriales décentralisées</i> , the decree requiring the publication of all planned and executed transfers to local governments.	<b>T6:</b> The Recipient has issued a decree clarifying the functioning of the Fond de Péréquation (equalization fund across local governments), including the equalization formula, disbursement procedures and the collection of the four dedicated taxes.	<i>Fond de Péréquation</i> executes transfers to the local governments (% of planned in the FY)  Baseline (2016): not active Target (2019): 80 percent or more (active)
<b>Issue:</b> Rural Road Maintenance  <b>Rationale:</b> A 2012 study found that half of Madagascar's secondary roads and two thirds of tertiary roads were classified as being in "bad condition". This makes access to markets for rural communities more expensive. The Road Maintenance Fund (FER) is in charge of	<b>PA7:</b> The Recipient's Council of Ministers has issued <i>Décret modifiant et complétant certaines dispositions du Décret no. 2016-924 portant statut du FER</i> , the decree amending the FER statute to increase transparency, including to ensure (i) annual publication of a detailed budget with forecasted	<b>T7:</b> The Recipient has issued a decree amending the FER's statute to specify the annual fraction of project expenditures allocated to communal road maintenance and requiring the Ministry of Interior and Decentralization and M2PATE to subsidize the required contribution of local governments to FER projects according to	Expenditure of the FER on communal road maintenance (percent)  Baseline (2016): 0 percent Target (2019): 10 percent or more

receiving and administering funds for the maintenance of all roads within the national territory. However, the FER is currently not able to effectively fulfill its function and, as a result, communal roads maintenance is constantly neglected.	resources retransferred into the FER, use of retained earnings and planned expenditures for the following year; (ii) annual publication of executed expenditures for the previous year and explanations of any deviations and (iii) publication of prioritization guidelines, including the distribution of expenditures across regions.	the criteria indicated in the prioritization guidelines.	
<p><b>Issue:</b> Rural Access to Electricity</p> <p><b>Rationale:</b> At 6 percent, Madagascar has one of the lowest rates of rural electricity access in the world. Improving access to affordable and reliable electricity services is critical for raising rural productivity to enable the adoption of modern farming and processing technologies. Electricity also creates opportunities for rural households to diversify into non-farm employment. However a lengthy and convoluted approval processes for licenses and authorizations and an incoherent legal framework with overlapping mandates between different actors is holding back private participation.</p>	<p><b>PA8:</b> The Recipient has submitted to Parliament <i>Projet de Loi No. 026/2017 portant Code de l'Électricité à Madagascar</i>, the draft law replacing <i>Loi 98.032</i>, and establishing a legal mandate for ADER to advance rural electrification through PPP.</p>	<p><b>T8:</b> The Recipient has issued the decrees for implementation of the revised electricity law and the Ministry of Energy approves the National Electrification Strategy.</p>	<p>Number of concessions and authorizations issued per year for rural areas</p> <p>Baseline (2016): 10 Target (2019): 40</p>

## ANNEX 2: LETTER OF DEVELOPMENT POLICY

Translated from the French version



### MINISTRY OF FINANCE AND BUDGET

*Antananarivo,*

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**The Minister**  
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**Dr. Jim Yong Kim**

**World Bank**

**1818 H Street NW, Washington DC**

Mr. President,

Madagascar is continuing to implement the National Development Plan (NDP) and its Implementation Plan (IP) with the aim of reducing poverty and firmly grounding inclusive and sustainable development. The Government has hinged its objectives around three pillars, namely: (i) improve governance, (ii) promote economic recovery, and (iii) expand access to basic social services.

The present letter reflects the government's will to take on challenges to increasing resilience among the most vulnerable people, promoting inclusive growth, and mobilizing significant investments for the development of the country, while reinforcing national and local institutions.

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The levels of social indicators failed to improve in spite of the Government's will to promote human capital development and social protection mechanisms and systems. The 2016 Africa Human Development Report, drawn up by the United Nations, once more confirmed that Madagascar features among the poor countries of Africa, ranking 154<sup>th</sup> out of 188 countries, with a low Human Development Index of 0.510.

Economic activities are gradually recovering, with a growth rate of 4.1% in 2016, expected to reach 4.3% in 2017. This increase owes to the performance of free export processing zones, following the resumption of AGOA, expansion of construction and public works sectors, and recovery of the mining sector. However, this drive was slowed down by the climate hazards of 2016 and 2017, the drought on the highlands, and Cyclone Enawo which hit the Northeastern part of the country. These hazards impacted price levels and the inflation rate for 2017 is estimated at 8.1% on period average.

The major economic and strategic orientations of the Government were aligned on the NDP. The Government is set on addressing the pressing economic and social challenges that the country is facing with the support of Technical and Financial Partners.

As such, the Government organized a Donors and Investors Conference in Paris in December 2016, to bring donors, technical and financial partners, and private investors together to support the country in its development projects. A commitment of USD 9.7 billion was announced at this conference, including 3.3 billion from the private sector.

In June 2017, the Board of Governors of the IMF granted an additional credit of SDR 30.55 million (approximately US\$ 42.3 million) to Madagascar, under the Extended Credit Facility (ECF). This credit was immediately disbursed with the planned second tranche, to address the impacts of natural disasters. The amount disbursed for 2017 increases as such to SDR 61.98 million (approximately USD 86 million).

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Regarding Public Finances, strategies aim to safeguard the macroeconomic stability and will draw on the support to socioeconomic development, as well as the practice of good governance.

The fiscal policy aims to increase the fiscal space through the reinforcement of tax administrations on collection and intensification of efforts oriented to the effectiveness of public expenditures. The net tax ratio to GDP will be at 11.4% in 2017 against 10.9% in 2016. Public expenditures have significantly increased, from 16% (2016) to 20.2% (2017). They focus on emergency activities following the damages caused by cyclone Enawo, the reinforcement of underperforming State-owned enterprises (AIR MADAGACAR and JIRAMA), while prioritizing expenditures on social sectors. Budget allocation for operation and investment to the four social Ministries (Ministry of Water, Ministry of National Education, Ministry of Public Health, Ministry of Population) will be increased to reach 1.3% of the GDP in 2019.

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Madagascar is a country with numerous assets: unequalled biodiversity, huge potential for agriculture, natural resources, and abundant labor. If complementarity between physical and human capital, as well as good governance were ensured, it would be a prosperous country. The disruptions caused by sociopolitical crises have left the majority of the population living under the extreme poverty threshold. The Government, through the NDP/IP, is set on implementing a development program aimed at reversing the trend of poverty aggravation. The planned reforms will contribute to the achievement of the objectives set in relation to governance improvement, economic recovery, and improvement of the access to basic social services.

The Government has promulgated Act #2014-020 dated September 27, 2014, governing the resources, modalities of election, organization, and operation of Local Governments (LGs). This Act provides for the consolidation of existing resources at the level of LGs and allows for creating new resources depending on the jurisdictions assigned to them to ensure their financial autonomy. The National Equalization Fund was created in 2016 at the level of the Local Development Fund to ensure better equity of the resources transferred to LGs. The operation manual of this fund is currently in the process of preparation, including the equalization formula and eligibility criteria to execute grant transfers at the level of the relevant LGs. To comply with good governance practices, namely transparency and accountability, Government grants that have already been transferred to LGs, as well as those planned will be disclosed to the public. The Government has adopted a decree requiring such publication. Moreover, a decree clarifying the operation of the National Equalization Fund will be established and will integrate the equalization formula, disbursement procedures, and making operational the collection of the four taxes dedicated to the Fund.

It is generally accepted that to achieve poverty reduction and sustained economic growth, the Government must fund basic social services.

The current civil registration procedures do not facilitate access to basic social services such as education and social protection to the population. Indeed, the 12-day period after birth is too short for them to complete such registration and the procedure for obtaining a substitute birth registration certificate with the courts is extremely complicated, especially in the remotest regions and for the most vulnerable social groups. Reflection has already been conducted on the reform of the civil registration legislation and the Government has undertaken to submit to the Parliament a draft law allowing retroactive registration of births at the district level for a period of five (05) years. Act #61-025 dated October 09, 1961 on civil registration documents will also be revised to recommend the extension of the legal birth registration deadline, organization of proximity services to perform such registrations, assignment of a unique identifier at birth, and setting up of a centralized system to monitor new registrations.

The social safety net and social protection system will be reinforced. In 2015, the Government instituted a National Social Protection Policy whose objective was to reduce by 15% the number of the population living in extreme poverty and putting half of the vulnerable segment of population under effective social protection coverage. The role of the Ministry of Population, Social Protection, and Women's Empowerment will be reinforced to ensure coordination and leadership in the sector and facilitate the implementation of this policy on non-contributory schemes. For the time being, the sector is not fully coordinated and leadership is still fragmented among various ministries and organizations. The Government is set on developing a national register of vulnerable households to prevent fragmentations, to allow for mapping social protection programs for the non-contributory system, and to avoid overlaps in actions. A decree on the creation of this national register will be adopted and published by the Council of Ministers. After this decree, a new Act on non-contributory social protection will be set up, reinforcing the coordination role of the Ministry of Population, Social Protection, and Women's Empowerment in social security net programs.

On the other hand, the development of the financial sector in Madagascar will be reinforced to promote financial inclusion.

Madagascar has taken an important step in the setting up and making operational of the Credit Bureau (CB). Efforts to improve the availability of financial information through the setting up of a Credit Bureau should be sustained. The Central Bank has formulated a draft bill to govern the private credit bureau and consulted with all stakeholders (banking professions, microfinance institution, private sector) regarding the basis of the text and its adequacy to Malagasy realities. This draft will be submitted to the Parliament for adoption. The technical documents on the setting up of the private credit bureau are currently in the process of preparation and the call for expressions of interest will be launched over the first quarter 2018.

The bank account penetration rate in Madagascar remains low. Only 4% of the population has a bank account. The key objective in terms of financial inclusion is to enable households and enterprises to access and use a minimum of one current account offered by a regulated payment service provider. In 2016, the Parliament already adopted Act #201-056 governing electronic money and electronic money institutions. However, this Act has not yet been effectively enforced to promote rapid progress of electronic money services and provide people excluded from the financial sector with access to a current account. The enforcement decree of this Act is adopted by the Council of Ministers, and the Bank and Financial Supervision Commission (CSBF) will publish instructions on (i) the minimum capital for Electronic Money Institutions (EMIs), (ii) licensing investigation procedures, and (iii) operational procedures for trust accounts. Before May 2018, CSBF will publish the decisions relating to applications for approval from EMIs received by late March 2018.

Agriculture is the core of Madagascar's economy. Nearly 80% of the population lives in rural areas and agriculture is the main occupation of most of them. Agricultural productivity in Madagascar is low.

The issue of land access is a major challenge to poverty reduction and improvement in the performance of the agriculture sector. It remains a barrier to the development of rural areas. Since 2004, the Government has initiated a land security process through the National Land Program whose objective is to align land practices and the regulatory framework with each other. An innovative land reform was launched in 2005, consisting in

the creation of land offices at the level of communes and enabling the latter to deliver land certificates as titles of ownership. This reform is being reinforced to remove any doubt regarding the value of land certificates. The Government submits to the Parliament a draft law on Titled Private Property which confirms the permanent legal value of land certificates. Article 47 of the draft law is revised to remove any obligation to convert the certificate into a land title.

The construction and rehabilitation of roads feature among the economic and social development priorities of the country. The Government created a Road Maintenance Fund (FER) in year 2000 to ensure the management of the road maintenance funding, whether they are national, regional, or communal. However, constraints on the financial resources of FER prevented the allocation of adequate resources to the maintenance of roads other than national ones. The Government consequently undertook to change the status of FER so as to increase transparency and have further details on the budget assigned to other roads. The Council of Ministers will issue a decree on the modification of the status of FER to allow for annually publishing (i) the detailed budget with forecasts of the resources transferred to FER, use of carryovers, and expenditures forecasted for the following year, (ii) expenditures effected the previous year, with explanation of variations from forecasts, and (iii) prioritization guidelines, including the distribution of expenditures between regions.

Access to power supply services is extremely low in Madagascar. Nearly 15% of the population only benefits from them and this rate goes down to 6% when considering the population living in rural areas. In 2015, the Government adopted the 2015-2030 New Energy Policy (NEP) which falls within the scope of the NDP, to address the urgent economic, social, and environmental challenges of the country. By 2030, 70% of the households would have sustainable access to power supply services. To accelerate the electrification process, the legal and institutional framework will be reinforced. A draft law on the revision of the Code of electricity is developed to this end and submitted to the Parliament. This draft provides for the definition of the mandate of ADER (Agency for the Development of Rural Electrification) by assigning a legal status and *modus operandi* for rural electrification through public-private partnership to it.

The implementation of all actions contemplated under the NDP will enable the Government to achieve its objectives, including a strong economic growth and poverty reduction. However, resource limitations lead the Government to request the financial support of the World Bank under a budget support.



**MINISTRE DES FINANCES  
ET DU BUDGET**

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**Le Ministre**  
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Antananarivo, le 4 OCT 2017

**Dr Jim Yong Kim**  
**Banque mondiale**  
**1818 H Street NW, Washington DC**

Monsieur le Président,

Madagascar poursuit la mise en œuvre du Plan National de Développement (PND) et de son Plan de Mise en Œuvre (PMO) dans le but de réduire la pauvreté et d'asseoir un développement inclusif et durable. Le Gouvernement fixe ses objectifs autour de trois piliers, à savoir : (i) améliorer la Gouvernance, (ii) favoriser la relance économique, et (iii) élargir l'accès aux services sociaux de base.

La présente lettre témoigne de la volonté du gouvernement de relever les défis pour accroître la résilience des personnes les plus vulnérables, favoriser une croissance inclusive et mobiliser d'importants investissements pour le développement du pays tout en renforçant les institutions nationales et locales.

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Les indicateurs sociaux ne se sont pas améliorés malgré la volonté du gouvernement de promouvoir les mécanismes et les systèmes de valorisation du capital humain et de protection sociale. Le Rapport sur le développement humain en Afrique 2016, établi par les Nations Unies, a encore confirmé que Madagascar figure parmi les pays d'Afrique pauvres, classé 154<sup>ème</sup> sur 188 pays avec un Indice de Développement Humain faible de 0,510.

Les activités économiques se redressent progressivement, le taux de croissance s'affiche à 4,1 % en 2016 et devra atteindre 4,3% en 2017. Cet essor est tiré notamment de la performance des zones franches industrielles suite au retour effectif de l'AGOA, de l'expansion des branches du BTP et de la reprise du secteur minier. Toutefois, les aléas climatiques au cours de 2016 et 2017, la sécheresse sur les hauts plateaux et le cyclone Enawo touchant notamment la zone Nord-Est du pays ont ralenti ce dynamisme. Ces aléas ont impacté le niveau des prix, le taux d'inflation pour 2017 est estimé à 8,1% en moyenne période.

Les grandes orientations économiques et stratégiques de l'Etat ont été alignées sur le Plan national de Développement. Le Gouvernement est déterminé à affronter les défis économiques et sociaux urgents du pays avec l'appui des Partenaires Techniques et Financiers.

Dans cette optique, le gouvernement a organisé la Conférence des Bailleurs et Investisseurs à Paris en décembre 2016 réunissant les donateurs, les partenaires techniques et financiers et les investisseurs privés afin de soutenir le pays dans ses projets de développement. Un engagement de 9,7 milliards USD y a été annoncé dont 3,3 milliards provenant du secteur privé.

En juin 2017, Le Conseil d'Administration du Fonds Monétaire International a accordé un crédit supplémentaire de 30,55 millions de DTS (environ 42,3 millions USD) en faveur de Madagascar au titre de la Facilité Elargie de Crédit (FEC). Ce crédit a fait l'objet d'un décaissement immédiat avec la deuxième tranche prévue, pour faire face aux impacts des catastrophes naturelles. Le montant décaissé pour 2017 est ainsi porté à 61.98 millions DTS (environ 86 millions USD).

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Concernant les Finances Publiques, les stratégies visent à préserver la stabilité macroéconomique, et se baseront sur l'appui au développement socio-économique ainsi que la pratique de la bonne gouvernance.

La politique budgétaire a pour objectif d'accroître l'espace budgétaire à travers le renforcement des administrations fiscales en matière de recouvrement et l'intensification des efforts axés sur l'efficacité des dépenses publiques. Le taux de pression fiscale net s'établira à 11,4% en 2017 contre 10,9% en 2016. Les dépenses publiques enregistrent une hausse significative, passant de 16% (2016) à 20,2% (2017). Elles sont axées sur les activités d'urgence suite aux dégâts causés par le cyclone Enawo, le renforcement des entreprises publiques en difficultés (AIR MADAGACAR et JIRAMA) tout en priorisant les dépenses envers les secteurs sociaux. Les allocations aux 04 ministères sociaux (Ministère de l'Eau, Ministère de l'Education Nationale, Ministère de la Santé Publique, Ministère de la Population) en fonctionnement et en investissement seront augmentées pour atteindre 1,3% du PIB en 2019.

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Madagascar est un pays doté de nombreux avantages : une biodiversité inégalée, un grand potentiel pour l'agriculture, des ressources naturelles et une main d'œuvre abondante. Avec une complémentarité assurée entre capital physique et humain, ainsi qu'une bonne gouvernance, il serait un pays prospère. Les perturbations engendrées par les crises socio-politiques ont laissé la majorité de la population vivant sous le seuil de l'extrême pauvreté. L'Etat, à travers le PND/PMO, est déterminé à mettre en œuvre un programme de développement pour inverser le cours de l'accroissement de la pauvreté. Les réformes envisagées contribueront à l'atteinte des objectifs fixés sur l'amélioration de la gouvernance, la relance économique et l'amélioration de l'accès aux services sociaux de base.

Le Gouvernement a mis en place la Loi n°2014-020 du 27 septembre 2014, modifiée par la Loi n°2015-008 du 01 avril 2015, régissant les ressources, les modalités d'élection, l'organisation et le fonctionnement des Collectivités Territoriales Décentralisées (CTD). Cette Loi prévoit la consolidation des ressources existantes de chaque niveau des CTD et permet de

créer de nouvelles ressources en fonction des compétences qui leur sont dévolues afin d'assurer leur autonomie financière. Le Fonds National de Péréquation a été créé en 2016 au niveau du Fonds de Développement Local pour assurer une meilleure équité des ressources transférées aux CTD. Le manuel d'opération de ce fonds est actuellement en cours de préparation incluant la formule de péréquation et les critères d'éligibilité pour effectuer les transferts des subventions au niveau des CTD concernées. Pour le respect des règles de la bonne gouvernance, en matière de transparence et de redevabilité, les subventions de l'Etat qui sont déjà transférées aux CTD ainsi que celles déjà planifiées seront publiées. Le Gouvernement a adopté un décret exigeant cette publication. Par ailleurs, un décret clarifiant le fonctionnement du Fonds National de Péréquation sera établi et intégrera la formule de péréquation, les procédures de décaissement, l'opérationnalisation de la collecte des quatre taxes et impôts dédiés au Fonds

La prise en charge par l'Etat des services sociaux de base est reconnue comme étant un impératif pour la réduction de la pauvreté et le déclenchement d'une croissance économique soutenue.

Les procédures d'enregistrement à l'Etat Civil actuelles ne facilitent pas l'accessibilité de la population à ces services sociaux de base, tels l'éducation, la protection sociale. En effet, le délai de 12 jours après la naissance s'avère trop court pour permettre cet enregistrement et le recours au jugement supplétif auprès des tribunaux est très compliqué, notamment dans les régions les plus reculées et pour les groupes sociaux les plus vulnérables. La réforme de la législation sur l'Etat Civil a déjà fait l'objet de réflexion et le Gouvernement s'est engagé à soumettre au Parlement une Loi permettant d'effectuer l'enregistrement rétroactif des naissances au niveau des districts, pour une période de cinq (5) ans. La Loi n°61-025 du 09 octobre 1961 relative aux actes d'Etat Civil sera également révisée, pour préconiser le prolongement du délai légal d'enregistrement à la naissance, l'organisation des services de proximité pour effectuer ces enregistrements, l'établissement d'un identifiant unique à la naissance et l'établissement d'un système centralisé pour le suivi des nouveaux enregistrements.

Le système des filets sociaux de sécurité et de la protection sociale sera renforcé. En 2015, le Gouvernement a institué la Politique Nationale de Protection Sociale ayant pour objectif de réduire de 15% le nombre de la population en situation d'extrême pauvreté et faire bénéficier une couverture de protection sociale efficace à la moitié de la couche de la population vulnérable. Le rôle du Ministère de la Population, de la Protection Sociale et de la Promotion de la Femme a été renforcé afin d'assurer la coordination et le leadership dans le secteur et faciliter la mise en œuvre de cette politique pour les régimes non contributifs. Actuellement, le secteur n'est pas entièrement coordonné, le leadership est encore fragmenté entre divers ministères et organismes. Le Gouvernement est déterminé à élaborer un registre national des ménages vulnérables pour éviter les fragmentations et permettre d'établir une cartographie des programmes de protection sociale du système non-contributif, et éviter les chevauchements des actions. La création de ce registre national fera l'objet d'un décret adopté et publié par le Conseil des Ministres. Ce décret sera poursuivi par la mise en place d'une nouvelle Loi sur la protection sociale non contributive renforçant la fonction de coordination du rôle du Ministère de la Population, de la Protection Sociale et de la Promotion de la Femme dans la coordination des programmes de filets sociaux de sécurité.

D'autre part, le développement du secteur financier à Madagascar sera renforcé afin de promouvoir l'inclusion financière.

Madagascar a réalisé une étape importante dans la mise en place et l'opérationnalisation de la Centrale des Risques (CdR). Il convient de continuer les efforts pour une meilleure disponibilité des informations financières à travers la mise en place d'un Bureau de Crédit. La

Banque Centrale a établi un projet de Loi régissant le bureau de crédit privé en consultant toutes les parties prenantes (profession bancaires, Institution de micro finance, secteur privé) sur le fondement du texte et son adaptation aux réalités malgaches. Ce projet de Loi sera soumis pour adoption au Parlement. Les documents techniques sur l'établissement du bureau de crédit privé sont actuellement en cours de préparation et l'appel à manifestation d'intérêt sera lancé au cours du premier trimestre 2018.

Le taux de bancarisation à Madagascar reste faible. 4% de la population seulement possèdent un compte bancaire. L'objectif important en termes d'inclusion financière étant de permettre aux ménages et entreprises d'accéder et d'utiliser au moins un compte de transactions offert par un fournisseur de service de paiement réglementé. En 2016, le Parlement a déjà adopté la Loi n°201-056 régissant la monnaie électronique et les établissements de monnaie électronique. Son décret d'application a été adopté en Conseil de Gouvernement. La mise en application de cette Loi permet de promouvoir les services de monnaie électronique et donner accès à un compte de transaction aux exclus du secteur financier. La Commission de Supervision Bancaire et Financier (CSBF) publiera les instructions sur (i) le capital minimum des Établissements de Monnaie Électronique (EMEs), (ii) les procédures d'instruction de licence et, (iii) les procédures opérationnelles pour le compte global. Avant le mois de mai 2018, la CSBF publiera également les décisions relatives aux demandes d'agrément des EME reçues à fin mars 2018.

L'agriculture constitue le noyau de l'économie de Madagascar. Près de 80% de la population vit en milieu rural et la plupart vivent de l'agriculture comme activité principale. La productivité agricole est faible.

La question des modes d'accès à la terre représente un enjeu important pour la réduction de la pauvreté et l'amélioration de la performance du secteur agricole. Elle demeure un blocage pour le développement du milieu rural. Depuis 2004, le Gouvernement a engagé un processus de sécurisation foncière à travers le Programme National Foncier dont l'objectif étant de mettre en adéquation les pratiques foncières et le cadre réglementaire. Une réforme foncière innovante a été lancée en 2005 en créant des guichets fonciers au niveau des communes et en permettant à ces derniers de délivrer des certificats fonciers comme titre de propriété. Cette réforme est en train d'être renforcée afin d'éliminer toute ambiguïté sur la valeur des certificats fonciers. Le Gouvernement soumet au Parlement, un projet de Loi sur la Propriété Privée Titrée qui confirme le caractère permanent de la valeur juridique du certificat foncier. L'article 47 de ce projet de Loi est révisé pour extraire toute obligation à transformer le certificat en titre foncier.

La construction et la réhabilitation de routes figurent parmi la priorité dans le développement économique et social du pays. Le Gouvernement a créé le FER (Fonds d'Entretien Routier) en l'année 2000 afin d'assurer la gestion du financement de l'entretien des routes, que ce soit nationales, régionales ou communales. Cependant, les contraintes sur les ressources financières du FER depuis 2013 l'a empêché d'allouer des ressources adéquates pour l'entretien des routes autres que nationales. Le Gouvernement s'est engagé de ce fait, à modifier le statut du FER afin d'accroître la transparence et d'avoir plus de précision sur le budget alloué à ces autres routes. Le Conseil des Ministres émettra un décret portant sur la modification du statut du FER pour pouvoir publier annuellement (i) le budget détaillé avec les prévisions des ressources transférées au FER, l'utilisation des reports à nouveau et les dépenses prévues pour l'année suivante, (ii) les dépenses exécutées de l'année précédente, avec une explication des écarts par rapport à la prévision, et (iii) les lignes directrices de priorisation, y compris la répartition des dépenses entre les régions.

L'accès aux services d'électricité est très faible à Madagascar. Près de 15% de la population seulement en bénéficie et ce taux baisse à 6% si on ne considère que la population vivant en zone rurale. En 2015, le Gouvernement a adopté la Nouvelle Politique Energétique 2015-2030 (NPE), qui s'inscrit du Plan National de Développement, afin de répondre aux défis d'urgence économique, sociale et environnement du pays. A l'horizon 2030, 70% des ménages auraient un accès durable aux services de l'électricité. Afin d'accélérer ce processus d'électrification, le cadre législatif et institutionnel devra être renforcé. Un projet de Loi portant révision du Code de l'Electricité est élaboré à cet effet, et soumis au Parlement. Cette Loi prévoit la délimitation du mandat de l'ADER (Agence pour le Développement de l'Electrification Rurale) en lui attribuant un statut légal et le mode opératoire pour l'électrification rurale à travers le partenariat public privé.

La mise en œuvre de toutes les actions envisagées dans le cadre du Plan National de Développement permettra au Gouvernement d'atteindre ses objectifs, notamment la réalisation d'une croissance économique élevée et la réduction de la pauvreté. Toutefois, la limitation des ressources conduit le Gouvernement à solliciter l'appui financier de la Banque Mondiale dans le cadre d'un appui budgétaire.



*G. Andri*

ANDRIAMBOLOLOMA Vonintsalana S.

### ANNEX 3: FUND RELATIONS ANNEX

#### IMF Staff Completes Mission to Review Progress of Madagascar's Economic Program

September 21, 2017

End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF's Executive Board for discussion and decision.

- Economic growth is projected at 4.1 percent in 2017.
- Performance under the ECF-supported program remains strong.
- Prudent monetary policy has helped to contain inflation.

A team from the International Monetary Fund (IMF) led by Marshall Mills, Mission Chief for Madagascar, visited Antananarivo from September 7–21, 2017 to hold discussions on the second review of Madagascar's economic reform program supported by the IMF's three-year Extended Credit Facility (ECF). [11](#) Good progress was made during the discussions and they will continue in the coming weeks. Following conclusion of ongoing discussions, the IMF Executive Board could consider the second ECF review in December 2017 as planned.

At the end of the mission, Mr. Mills issued the following statement:

"Madagascar's economic conditions continue to be positive in 2017, with sustained macroeconomic stability despite shocks. Economic growth is projected at 4.1 percent in 2017. While still among the highest rates in sub-Saharan Africa, this is lower than expected, partly due to the impact of the cyclone and drought on agriculture and hydropower. Growth is projected to accelerate to 5.1 percent in 2018, led by rising public investment and a rebound in agriculture. Inflation, which ticked up earlier this year due to weather-related shocks, is expected to fall to around 8 percent by end-year, and to decline gradually in 2018.

"Performance under the ECF-supported program remains strong. Based on current data, all quantitative performance targets for end-June were met. Revenue collection continues to exceed program targets. The Central Bank of Madagascar has appropriately managed pressures linked to the positive vanilla price shock, with the accumulation of additional foreign exchange reserves, while the exchange rate appreciated, consistent with its flexible exchange rate regime. Prudent monetary policy has helped to contain inflation. Most structural reforms planned in the program were completed, although some with delays.

"Concerning the remainder of 2017, the authorities are undertaking some additional budget measures to offset unexpected developments. Higher than expected outlays for the wage bill will be offset by over-performance on revenues and containing other spending. The authorities are also working to speed up the execution of foreign-financed investment projects. Work on Air Madagascar's planned strategic partnership is advancing, and a final agreement will require a substantial transfer in the 2017 budget to cover its liabilities accumulated from past losses, as already envisaged under the IMF-supported program.

“Discussions on the 2018 budget focused on the program’s goals of increasing revenue collection and enhancing the quality of public spending. The authorities reiterated their commitment to these goals. They are elaborating additional tax policy and administration reforms to maintain strong revenue growth in 2018, despite the negative impact of the stronger MGA on customs revenues. On the spending side, discussions focused on promoting spending to support inclusive growth, as envisioned under the program. Progress will require faster execution of public investment, containing wage bill growth, and reducing transfers, especially to the public utility JIRAMA. Reforms at JIRAMA are advancing, notably to improve management and lower costs, and continued progress is essential to cut transfers as planned.

“Discussions also addressed priority medium-term structural reforms in monetary policy, financial sector development, tax policy, and governance. The Central Bank is improving its operational framework for monetary policy implementation. Drawing on the recommendations of the Financial System Stability Assessment (FSSA), the authorities are also enhancing risk-based prudential supervision, tightening prudential regulations, and modernizing the banking legislation. On tax policy, discussions focused on ensuring that new tax incentives under consideration to promote private investment are cost-effective, attracting additional investment without jeopardizing future revenue performance. On governance, the Government has submitted draft laws on international cooperation and asset-recovery to parliament. In addition, it has prepared a draft Anti-Money Laundering law, which it also intends to submit to parliament this year. Staff urged the authorities to follow through on the submission this year, as well as to progressively strengthen their asset disclosure regime.

“The mission met with President Hery Rajaonarimampianina, Prime Minister Olivier Mahafaly Solonandrasana, Minister of Finance and Budget Vonintsalama Andriambololona, Minister of Economy and Plan Herilanto Raveloharison, Central Bank of Madagascar Governor Alain Rasolofondraibe, Commissioner General Léon Rajaobelina, senior officials, as well as private sector representatives, and development partners.

“The mission thanks the Malagasy authorities for their strong cooperation and the constructive discussions.”

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[1] The ECF is a lending arrangement that provides sustained program engagement over the medium to long term in case of protracted balance of payments problems. The arrangement for Madagascar in the amount of SDR 220 million (about US\$304.7 million or 180 percent of quota) was approved by the IMF Executive Board on July 28, 2016 (see [Press Release No. 16/370](#)). Augmentation of access was granted under the program for SDR 30.55 million (about US\$42.39 million) or 12.5 percent of the country’s quota following the IMF Executive Board on June 28 (see [Country Report No. 17/223](#)).

#### ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior actions	Significant positive or negative environment effects (yes/no/to be determined)	Significant poverty, social or distributional effects positive or negative
<b>Pillar A:</b> Strengthening the resilience of individuals against shocks		
<b>PA1.</b> The Recipient has submitted to Parliament <i>Projet de Loi No. 028/2017 relatif à la délivrance des jugements supplétifs d'actes de naissance dans le cadre de l'enregistrement rétroactif de naissance des enfants et des adultes dans le cadre de l'Opération Carte Nationale d'Identité</i> , the draft law allowing for retroactive birth registration, for a period of five years, at district level.	<b>No.</b> This reform is to improve registration at birth which has been assessed not to have any impact on environment.	<b>Yes, positive.</b> While the proportion of births registered in Madagascar is high by regional standards, the proportion of children that are not registered in any way is higher among children from the poorest households, suggesting that a significant expansion of coverage would benefit mainly the poorest segments of the population.
<b>PA2.</b> The Recipient's Council of Government has issued <i>Décret no. 2017/844 portant création et tenue de l'annuaire des interventions et du registre des bénéficiaires dans le cadre des actions de Protection Sociale du régime non-contributif</i> , the decree establishing a national social registry for social safety net program beneficiaries.	<b>No.</b> This reform is to establish a national social registry which has been assessed not to have any impact on environment.	<b>Yes, positive.</b> There is strong evidence that social safety nets, non-contributory transfers targeted mainly to the poor, can increase the resilience of the poor and increase their opportunities. In the presence of multiple schemes, unified registries potentially increase the overall impact of the social safety net architecture.
<b>PA3.</b> The Recipient's Council of Government has issued <i>Décret no. 2017/851 fixant le Capital Social Minimum des Etablissements de Monnaie Electronique (EME)</i> , the decree implementing <i>Loi no. 2016-056</i> , establishing the minimum capital requirements for EMEs; and the CSBF has issued: (i) instructions 002/2017 for the licensing process for EMEs; and (ii) instructions 003/2017 for the operating procedures for trust accounts.	<b>No.</b> This reform is related to the promotion of e-money which has been assessed not to have any impact on environment.	<b>Yes, positive.</b> E-money can benefit the poor and strengthen coping mechanisms through several channels: lower transaction costs, reduce opportunities for corruption and thus decrease leakage in cash transfer programs, reduce transactional risks, increase authorities' ability to support those affected by shocks, and expand the use of transfers within private networks as a means to cope with shocks.

<p><b>PA4.</b> The Recipient has submitted to Parliament <i>Projet de Loi No. 024/2017 régissant l'activité et le contrôle des Bureaux d'Information sur le Crédit</i>, the draft law establishing credit information bureaus.</p>	<p><b>No.</b> This reform is to establish PCB which has been assessed not to have any impact on environment.</p>	<p><b>Yes, positive.</b> Access to credit may allow households to borrow in bad times and repay in better times, increasing resilience to shocks. Cross-country studies show that credit bureau coverage is associated with financial deepening and this, in turn, has positive effects on growth on average.</p>
<p><b>Pillar B:</b> Creating an enabling environment for economic opportunities in rural communities</p>		
<p><b>PA5.</b> The Recipient has submitted to Parliament <i>Projet de Loi No 023/2017 fixant le régime juridique de l'Immatriculation et de la Propriété Foncière Titree</i>, the draft law on titled private property, requiring the issuance of land certificates as permanent written proof of property rights.</p>	<p><b>No.</b> This law will help the population to secure their existing parcels which has been assessed not to have any impact on environment.</p>	<p><b>Yes, positive.</b> The action is likely to have a pro-poor impact to the extent that access to land certificates is faster and cheaper and this allows the poor to sell, lease out or keep cultivating their land. The pro-poor effect is likely to be stronger if the new law will be accompanied by complementary actions.</p>
<p><b>PA6.</b> The Recipient's Council of Ministers has issued <i>Décret 2017/867 fixant les modalités de publication des subventions allouées aux Collectivités territoriales décentralisées</i>, the decree requiring the publication of all planned and executed transfers to local governments.</p>	<p><b>No.</b> This reform is to explicit the parameters of fund transfers to local government which has been assessed not to have any impact on environment.</p>	<p><b>To be determined.</b> Decentralization has potential for poverty reduction through increases in the efficiency and equity in service delivery. However, the effects of decentralization ultimately will depend on the local context and on what exactly is devolved to local authorities.</p>
<p><b>PA7.</b> The Recipient's Council of Ministers has issued <i>Décret modifiant et complétant certaines dispositions du Décret no. 2016-924 portant statut du FER</i>, the decree amending the FER statute to increase transparency, including to ensure (i) annual publication of a detailed budget with forecasted resources retransferred into the FER, use of retained earnings and planned expenditures for the following year; (ii) annual publication of executed expenditures for the previous year and explanations of any deviations and (iii) publication of prioritization guidelines, including the distribution of expenditures across regions.</p>	<p><b>No.</b> This reform is to improve transparency of the FER which has been assessed not to have any impact on environment</p>	<p><b>Yes, positive.</b> The DPO actions are expected to have a direct pro-poor effect to the extent that access and quality of rural roads will be improved and access cost, measured in terms of traveling time, will be reduced. The amendment of the FER's statute will give access to poor local governments to financing of municipal road maintenance funds. It will be key to know the criteria used to identify a poor commune and to make sure that they have the administrative capacity to manage funds and implement projects.</p>

<p><b>PA8.</b> The Recipient has submitted to Parliament <i>Projet de Loi No. 026/2017 portant Code de l'Électricité à Madagascar</i>, the draft law replacing <i>Loi 98.032</i>, and establishing a legal mandate for ADER to advance rural electrification through PPP.</p>	<p><b>No.</b> The infrastructures developed for rural electrification are small. This law is to reinforce ADER mission to promote their current approach in rural electrification which has been assessed not to have any impact on environment.</p>	<p><b>Yes, positive.</b> The DPO actions are expected to have positive pro-poor effects to the extent that they will increase access to electricity and improve the quality of the energy source. The overall impact will depend on the cost associated with access to electricity and it is likely to be stronger if complementary actions will be taken.</p>
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