PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

October 11, 2017
Report No.: 120666

Operation Name	MG - Inclusive and Resilient Growth DPO
Region	AFRICA
Country	Madagascar
Sector	General public administration sector (50%); Central government administration (50%)
Operation ID	P162279
Lending Instrument	Development Policy Financing
Borrower(s)	REPUBLIC OF MADAGASCAR
Implementing Agency	Ministry of Finance and Budget (MFB)
Date PID Prepared	September 28, 2017
Estimated Date of Appraisal	October 11, 2017
Estimated Date of Board Approval	December 7, 2017
Corporate Review Decision	The team is authorized to appraise and to proceed to the negotiation of the program

I. Key development issues and rationale for Bank involvement

1. **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. 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.

2. **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 incidence of extreme poverty is higher among female-headed households, which make up one-fifth of all households.

3. **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 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 contributed to a gradual

macroeconomic recovery in Madagascar, with real GDP growth expected to stabilize at 4.2 percent in 2016 and 2017.

4. **A key challenge for Madagascar is to ensure that these positive macroeconomic developments are brought closer to the poor – that 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[1]. 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.

5. **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 (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.

II. Proposed Objective(s)

6. **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 Country Partnership Framework (CPF) 2017-21 program, this program focuses on building resilience and more inclusive growth.

III. Preliminary Description

7. **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 5 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

[1] World Bank, 2016. Shifting Fortunes and enduring poverty in Madagascar

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[2]. 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 connectivity of rural communities, the DPO also supports 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 Development Agency for Rural Electrification (ADER) to simplify licensing and authorization procedures for rural electrification projects, including small energy producers.

IV. Poverty and Social Impacts and Environment Aspects

8. **The project has conducted a full Poverty and Social Impact Analysis (PSIA), highlighting the pro-poor impact of the proposed DPO program.** By design, all measures supported by this DPO aim to improve the conditions of Madagascar's poor. Birth registration makes individuals more visible, and the state more accountable for provision of health, education, other services, safety nets, and legal protection. There is strong evidence that social safety nets, non-contributory transfers targeted mainly to the poor, can increase the resilience of the poor and increase their opportunities. Promoting the use of e-money, the electronic alternative to cash, offers some promise to strengthen financial inclusion in developing countries. Access to credit may allow households to borrow in bad times and repay in better times, increasing resilience to shocks. A large literature exists on the effects of formal tenure recognition that positively affect welfare possibly via an investment and perceived tenure security effect on agricultural productivity. The early empirical literature suggests that decentralization holds potential for poverty reduction. The improvement of rural roads has a positive effect on poverty reduction via economic growth. Promoting access to electricity in rural areas has a potential significant impact on poverty and resilience.

9. **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

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[2] In Madagascar there is a very large share of small informal firms that tend not to formalize over time. This share of 1-person firms is constant at around 72 percent for firms with under 3 years and over 20 years of activity. There is no marked drop off in informality with the length of the firm's life (Madagascar SCD, 2015).

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 specifics 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 3 February 2004 on Development of Investment Compatibility with the Environment (MECIE) which stipulates the requirement to prepare an environmental and social impact assessment (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.

V. Tentative financing

Source:		($m.)
BORROWER/RECIPIENT		0.00
International Development Association (IDA)		40.00
Borrower/Recipient		
IBRD		
Others (specifiy)		
	Total	40.00

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