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

September 29, 2015
Report No.: 99909
(The report # is automatically generated by IDU and should not be changed)

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| **Operation Name** | MG - Resilience DPO |
| **Region** | AFRICA |
| **Country** | Madagascar |
| **Sector** | General public administration sector (50%); Central government administration (50%) |
| **Operation ID** | P153084 |
| **Lending Instrument** | Development Policy Lending |
| **Borrower(s)** | MINISTRY OF FINANCE AND BUDGET (MFB) |
| **Implementing Agency** | |
| **Date PID Prepared** | September 21, 2015 |
| **Estimated Date of Appraisal** | October 23, 2015 |
| **Estimated Date of Board Approval** | December 3, 2015 |
| **Corporate Review Decision** | Following the corporate review, the decision was taken to proceed with the preparation of the operation. |

## I. Key development issues and rationale for Bank involvement

A vast majority of the Malagasy is poor, and extremely so. Extreme poverty (per capita consumption under $1.25 2005 purchasing power parity – PPP – per day) has hovered around four fifths of the population between 2001 and 2012. Over the same timeframe, absolute poverty ($2 PPP per capital per day) rose from an estimated 88.9 in 2001 to 92.7 percent of the population in 2005, then declined slightly, but stayed above 90 percent until 2012.

Inequality in Madagascar is similar to that of other low-income countries, but it diminished strongly between 2001 and 2012. The Gini coefficient was 0.41 in 2012, similar to the low income average at 0.40. The poverty gap, hovering around 40-45 range, is also similar to the low income average, and its evolution mirrors the consumption growth pattern per period. Madagascar's inequality, however, is not due to a steep welfare increase at the top, but due to relatively higher inequality among the bottom 90 percent than in other poor countries – that is, different levels of deprivation. Based on an analysis of the incidence of growth, inequality has declined from 2001 to 2012, primarily because it declined dramatically in the first half of 2000s when consumption growth accrued disproportionately to the poor.

The political context remains challenging, delaying urgently needed reforms. Madagascar returned to constitutional order when a duly-elected government took office in 2014, after a political crisis, which lasted five years and with devastating effects on the economy, poverty and social outcomes. It was an event welcomed by all, but only the first step towards putting the country back on track for sustainable development. A number of tangible progress has been made since: a new National Development Plan and its implementation strategy were elaborated; public expenditure was reoriented towards social spending and public investments in the last two State budgets adopted by the Parliament, supplemental budget for 2014 and the budget law 2015; the constitutionally mandated local elections were held peacefully in July 2015. The country has, however, encountered difficulties in moving ahead in unison to implement the new development strategy. The executive, legislative and judiciary branches have yet to settle on constructive working arrangements. Intra elite power struggles, which have always been a feature of Malagasy politics, have not abated, distracting the attention and energy of the political leaders, and at times threatening to derail the fragile recovery process. The local elections had injected additional uncertainties, and jockeying for repositioning continues while the country awaits the final outcome. As a result, most of the urgent reforms have yet to be implemented fully. The speed of the turnaround, while disappointing, is perhaps to be expected, as the last crisis was particularly long and traumatic, even for a country with long experience in political instability.

Many of the urgent reforms relate to fiscal policies, on both revenue and expenditure fronts, as a prerequisite for financing public investments and social spending necessary for fighting poverty and pursuing sustainable development. Madagascar's tax as a share of GDP has historically been among the lowest in the world, hovering below 10 percent in 2014. Strategies for increasing tax revenue have been drawn up, and efforts are being made, but they have not yet reached a point of producing concrete results. The government still allocates a large share of discretionary spending to unaffordable and poorly targeted-fuel subsidies and transfers to finance the losses of the two troubled state-owned companies, the public utility company (JIRAMA) and Air Madagascar. The limited fiscal space and legacy distortions from the transition period are limiting the administration's margin of maneuver.

## II. Proposed Objective(s)

The program development objective of the proposed operation is to improve the efficiency and transparency of public finance. The program aims at enlarging the fiscal space by supporting measures to reduce inefficient subsidies and helping to initiate steps to increase revenue in the medium run. It also seeks to enhance transparency and accountability in public finance. The policy reforms supported by the proposed operation are steps towards achieving the above aim, and the risk that they may not be followed through exists. On the other hand, the Bank can strengthen the momentum for the reforms and improve the chances of their success.

The proposed operation is a stand-alone, single tranche to accompany the government's efforts to turn around the country. It supports "macroeconomic stability" pillar of the government's national development plan most directly, and "governance and rule of law" pillar less directly. The two pillars were selected as the natural foundations for overcoming the country's main challenges to reducing poverty. To conduct appropriate pro-poor policies, economic growth and fiscal space for the government are necessary. The other three pillars, "inclusive growth," "human capital development" and "natural resources and resilience against catastrophes," are supported by complementary investment and technical assistance operations.

## III. Preliminary Description

The proposed operation will support actions which would help enlarge fiscal space or improve transparency of public finance as a precondition for improving public service delivery. The actions include both revenue and expenditure measures, as well as steps to improve transparency and accountability.

## IV. Poverty and Social Impacts and Environment Aspects

*Poverty and Social Impacts*

The policies supported by this DPO are likely to contribute to poverty reduction and a positive social impact. The actions designed to increase fiscal space are expected to contribute indirectly to poverty reduction in the future, as the available resources are increasingly directed towards measures to alleviate poverty.

*Environment Aspects*

The policy actions supported by this operation are not expected to have any direct impact on environment.

## V. Tentative financing

| Source: | | ($m.) |
|---|---|---|
| BORROWER/RECIPIENT | | 0 |
| International Development Association (IDA) | | 45 |
| Borrower/Recipient | | |
| IBRD | | |
| Others (specifiy) | | |
| | Total | 45 |

## VI. Contact point

**World Bank**
Contact: Keiko Kubota
Title: Lead Economist
Tel: 5339+6008 / 261-20-225-6000
Email: kkubota@worldbank.org
Location: Antananarivo, Madagascar (IBRD)

**Borrower**
Contact: Mr. Gervais Rakotoarimanana
Title: Minister of Finance
Tel: 261 20 22 646 81
Email:rfrancoismm@gmail.com

## VII. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop