PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

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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	October 16, 2015
Estimated Date of Appraisal	November 3, 2015
Estimated Date of Board Approval	December 10, 2015
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Country and Sector Background

Madagascar returned to constitutional order when a duly-elected government took office in 2014, after a five-year long political crisis. The crisis had devastating effects on the economy, poverty and social outcomes. The return to constitutionality 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; 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 threatening at times to derail the fragile recovery process. The local elections had injected additional uncertainties, and jockeying for repositioning continues while the country awaits the final outcomes. Consequently, 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 prone to 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 under way, but they have yet to produce concrete results. The government still allocates a large share of the 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.

A vast majority of the Malagasy is poor, and extremely so. Extreme poverty (per capita consumption under $1.9 2010 purchasing power parity – PPP – per day) has hovered around 70-80 percent of the population between 2001 and 2012 (the latest data available). Over the same timeframe, absolute poverty ($3.1 PPP per capital per day) rose from an estimated 84.1 in 2001 to 93.0 percent of the population in 2012

II. Operation Objectives

The program development objective of the proposed operation is to strengthen reporting and increase availability of information relevant to assessing the effectiveness of public finance, and to improve efficiency of public finance through better payroll management and moving closer to upholding the treasury single account principle. The program supports improving the efficiency and effectiveness of public finance primarily through disclosure of relevant information. Such disclosure is important for transparency, enhances accountability, and in the long run, contributes to increasing fiscal space. The proposed program also supports reducing inefficient expenditure. The policy reforms supported by the proposed operation are aimed at enhancing resilience of the country by putting in building blocks to encourage participation of relevant actors and public at large in informed policy discussions.

III. Rationale for Bank Involvement

The reforms supported by the operation are steps towards achieving the development objective, 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 International Monetary Fund has reached an agreement at technical level with the government for a second Rapid Credit Facility and a six months staff monitored program, which will be considered by its Board in November 2015. Other partners, including the African Development Bank, European Union and Agence Francaise de Developpement are providing budget support to the government also.

IV. Tentative financing

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

V. Institutional and Implementation Arrangements

Progress on the results indicators will be monitored and evaluated jointly by the Recipient and the Bank. Ministry of Finance and Budget has a designated coordinator for budget support operations, and has an adequate capacity. The members of the *Cadre de Partenariat* intend to move towards regular and harmonized monitoring of results, common to all budget support operations in the medium term.

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 Development Policy Operation 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 Grievance Redress Service (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.

VI. Risks and Risk Mitigation

The principal risk to the objectives of this operation is that the supported actions are not enough to build the reform momentum. Because the proposed operation is a single-tranche, stand-alone operation, the actions supported are necessarily steps in the longer reform agenda. If the reform efforts stall, unable to overcome the resistance from stakeholders with vested interests or overwhelmed by political events, the development objectives would not be achieved. This risk is substantial and cannot be controlled completely, but this operation mitigates it in two ways. First, it seeks to attain 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 technical assistance provided by IDA and development partners, which together constitute a more holistic support environment than one operation can offer.

Insufficient tax revenues, growing transfers to the two state-owned enterprises and low international reserves constitute a macroeconomic risk, while a delay in economic recovery and resumption of aid inflows will compound it. Increasing the fiscal space is one of the main goals of the proposed operation and a new public sector project under preparation, and is also subject to technical assistance from the IMF. Reducing inefficiencies at the two state-owned companies, JIRAMA and Air Madagascar, supported by this operation, would mitigate this risk. The financial contribution provided by this operation will also reduce this risk directly.

VII. 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 strengthen reporting and increase availability of information relevant to assessing the effectiveness of public finance, and improving efficiency of public finance are expected to contribute indirectly to poverty reduction in the future, as better access to information and improved efficiency of public finance could be used to fund measures to alleviate poverty.

Environment Aspects

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

VIII. Contact point

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