Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 23-Jul-2020 | Report No: PIDA30124

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Madagascar	P174388	Madagascar Covid-19 Response DPO (P174388)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
AFRICA EAST	27-Aug-2020	Urban, Resilience and Land	Development Policy Financing
Borrower(s)	Implementing Agency		
Ministère de l'Economie et des Finances	Ministere de l'Economie et des Finances		

Proposed Development Objective(s)

The development objective of the proposed operation is to assist the Government of Madagascar in its response to the Covid-19 crisis by (i) mitigating the impact on lives and livelihoods, and (ii) supporting the sustainable recovery of the country.

Financing (in US$, Millions)

SUMMARY

Total Financing	75.00

DETAILS

Total World Bank Group Financing	75.00
World Bank Lending	75.00

Decision

B. Introduction and Context

Country Context

1. **This program document proposes an Emergency Development Policy Financing (DPF) in the amount of US$75 million to the Government of Madagascar (GoM) to mitigate the impact of the COVID-19 crisis and lay the foundations for a sustainable recovery.** Global trade and travel disruptions as well as domestic containment measures are expected to result in the first recession since the 2009 crisis, with GDP predicted to contract by 1.2 percent in 2020 in the baseline

scenario, compared to an estimated growth rate of +5.2 percent just prior to the coronavirus outbreak. Assuming successful containment measures, conditions are expected to stabilize in the second half of the year, with investment and exports recovering in 2021. Under baseline assumptions, growth would recover to an estimated 4.0 percent in 2021, leaving a cumulative effect of the coronavirus outbreak after 2 years of -7.8ppt of GDP. In this context, extreme poverty is predicted to increase in 2020 to 76.8 percent (US$1.9/day) from 74.5 percent in 2019, undoing three years of consecutive declines.

2. **The emergency DPF will enable the GoM to meet a sudden unexpected financing gap and help deliver a timely response to the COVID-19 crisis.** The fiscal deficit is projected to widen to 5.4 percent of GDP in 2020 before reaching 4.8 percent in 2021, with public debt increasing to an estimated 45.9 percent of GDP in 2021, a level still below the risk threshold for a medium debt-carrying capacity country like Madagascar. The COVID-19 shock is expected to generate this year an increase in gross financing needs amounting to US$480 million. Baseline projections only consider measures included in the revised budget law for 2020 as well as already committed financial support by donors, including the IMF's Rapid Credit Facility (US$166 million approved by the IMF Board on April 4; US$166 million under preparation), this emergency DPO for an amount of US$75 million, and US$58 million in emergency budget support by AFD and AfDB. The government is also participating in the G20 Debt Service Suspension Initiative. The decision to request a suspension on payments of Principal and Interest by all official creditors from May 1, 2020 to end-2020 should reduce fiscal financing needs by about $9 million this year. This, together with emergency budget supports, is projected to close the fiscal financing gap for 2020.

3. **The macroeconomic policy framework is currently deemed adequate to respond to the COVID-19 crisis.** Fiscal deficits continue to be financed predominantly by concessional financing, and the fiscal shock associated with COVID-19 should be covered by emergency budget support from donors, including this emergency DPF. Important reforms have also been implemented in recent years to improve fiscal sustainability and public financial management, including a renewed focus on maintaining fiscal space for priority expenditures, as well as boosting revenues and transparency. The central bank is also strongly committed to maintaining price, exchange rate and financial stability, with those tasks being facilitated by a robust institutional framework and strengthened macro prudential rules.

Relationship to CPF

4. **This operation is closely aligned with the World Bank CPF for Madagascar, directly supporting several CPF objectives while mitigating the risk of backsliding due to the ongoing crisis.** The policy reform areas supported are direct contributions to five of the Country Partnership Framework's (CPF FY17-214) eight objectives: i) investing in children's human development; ii) enhanced resilience of livelihoods of vulnerable households in rural and urban areas; (iii) enhanced transparency and accountability; (iv) improved business environment and access to finance; and v) improved access to energy and transport. As such, this operation and the reforms supported by it are an important contribution to the CPF's overall objectives of increasing the resilience of the most vulnerable and promoting inclusive growth. While the immediate goal of the operation is to buffer the negative impact of the COVID-19 induced shock, it seeks to lay a foundation for renewed inclusive growth from 2021 onwards.

C. Proposed Development Objective(s)

5. **The development objective of the proposed operation is to assist the Government of Madagascar in its response to the Covid-19 crisis by (i) mitigating the impact on lives and livelihoods, and (ii) supporting the sustainable recovery of the country.**

Key Results

6. **This DPO is expected to result in** i) a more coherent and better coordinated emergency response; ii) increased efficiency and accountability of the GoM's COVID-19 response by tracking all emergency spending and publishing monthly financial statements and procurement reports of the COVID-19 response fund; iii) increased financial inclusion by enabling access to emoney accounts to segments of the population that have been excluded from the financial system to date; iv) improved access to finance which will alleviate short term costs and promote business resilience of MSMEs; v) increased liquidity in the financial system and extension of loan repayments and improved access to credit, limiting the risk of insolvency of otherwise viable firms; vi) increased access and affordability of electricity services among the poorest populations, while reducing the rural-urban divide; vii) greater fiscal sustainability by increasing the information available to decision-maker for public debt management and by enhancing accountability as the public gets more information on public loans.

D. Project Description

7. **The operation targets policy actions and institutional reforms under three pillars. The first pillar aims to support an effective and transparent strategy to alleviate the immediate impact of the COVID-19 outbreak.** It regroups measures aimed at detecting and responding to the health threat posed by COVID-19 and helping protect poor and vulnerable households from the economic and social shocks of the crisis through effective and well-targeted social protection measures and greater access to digital payment systems to facilitate the delivery of cash transfer programs. These measures are a scale up of ongoing responses in the health and social protection sectors supported by development partners, including the World Bank. effective and transparent management of emergency funds is also key to ensuring public ownership and accountability. This requires a robust governance framework able to deliver well targeted, coordinated and traceable emergency spending. Prior actions included in Pillar 1 include (i) the adoption of a single multisectoral emergency plan aiming at scaling up interventions to alleviate the impact of the crisis, (ii) a decree improving the management and transparency of COVID-related spending, and (iii) an initiative to ease the opening of electronic money accounts for vulnerable households in order to facilitate cash transfer and other social programs.

8. **The second pillar aims to reinforce measures to support the preservation of jobs and to alleviate financing pressures for viable companies**. It focuses on policies reinforcing workers' human capital and companies' access to finance and markets. The objective is to address urgent financing pressures in order to limit closures/bankruptcies and prevent widespread layoffs, while laying the foundation for a sustainable recovery by allowing companies to take advantage of new market opportunities as the crisis abates. Prior actions include a scaled program of interventions to support the private sector through training schemes for affected workers, as well as financial guarantees, grants, and tax relief for companies, as well as exceptional liquidity provisions by the central bank of Madagascar

9. **The third pillar aims to support an inclusive and sustainable recovery by strengthening access to basic services, improve resilience to future shocks, and manage debt risks.** During the transition from crisis to recovery, the focus of government policy will need to shift towards reforms that support inclusive growth and measures boosting resilience to future shocks. This includes the need to accelerate the transformation of the power sector to guarantee its long-term financial viability while offering more affordable grid access to vulnerable populations. Building the capacity to stimulate sustainable growth while reinforcing resilience to shocks also necessitates a strong foundation of macroeconomic stability, fiscal strength, and effective debt management – including debt transparency. In the context of a crisis-induced increase in public debt, transparency has become critically important, especially regarding the extent of contingent liabilities, including guarantees and SOE borrowing. Prior actions under Pillar 3 include a new connection policy by the

power utility company JIRAMA and the increased coverage and transparency of overall public debt reporting.

E. Implementation

Institutional and Implementation Arrangements

10. **Implementation of this operation will be coordinated by the Ministry of Economy and Finance (MEF).** Nevertheless, the implementation of the program is a shared responsibility across several other entities that are also closely involved in the reform program, the Prime Minister's Ofifice the Central Bank, JIRAMA, ORE, and MEH. Each of these institutions will be co-responsible for the execution of the Policy Matrix and will inform MEF about its results. The GoM, through the MEF, will be responsible for providing written progress reports to the World Bank on the implementation of the program, consolidating progress achieved.

11. **Progress on the results indicators will be monitored and evaluated jointly by the Recipient and the World Bank.** The MEF is the main counterpart of the World Bank for this development policy financing and will also be responsible for coordinating the implementation of the policy program. Moreover, the MEF will follow disbursement procedures of the World Bank to receive proceeds.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

12. **The reforms supported by this operation are expected to have positive poverty and social effects for poor and vulnerable groups.** The government's multi-sector emergency program comprises a wide range of health and social mitigation activities. Those directly benefiting the vulnerable appear to be: expansion of the social safety net program to cover the poorest 30 percent in three zones; food assistance distributed at 687 community sites and 2,500 schools as well as to 5,500 tourist guides, 7,500 students, 7,000 city taxi drivers and 5,500 suburban drivers and receivers; deferral of utility payments; combatting GBV through reception centers, and Listening and Legal Consultation Centers; employment of the 200,000 people who lost their jobs through the implementation of HIMO / ACTP activities at a rate of 5,000 ariary; and support to 1,209 Loharano committees. The cash transfers provide direct support to vulnerable groups, particularly the poorest, who have lost income as a result of the crisis and confinement measures. Support for SMEs – which may often be family businesses and the sole source of income – can also help some businesses survive and begin recouping income.

Environmental, Forests, and Other Natural Resource Aspects

11. The reforms supported by this operation are unlikely to have significant negative impacts and risks on Madagascar's natural assets. All the actions supported through this operation are policy oriented; they do not support direct investment in environmentally impactful projects or involve policy actions with significant environmental consequences. Under Pillar 1, the proposed reforms are aimed at protecting lives and livelihoods, largely through coordination of donor funding, improving traceability systems and streamlining cash payments to beneficiaries. These reforms are unlikely to cause negative environmental impacts. Pillar 2 is focused on protecting jobs and investments, and the policy reforms will target tax reforms to alleviate short term pressure on businesses to remain open and cover some costs of businesses that will enable them to be more resilient in the affected business climate. The policy reforms under this pillar are unlikely to have negative environmental impacts they are focused predominantly on the financing rules that enable access to finance for businesses that are facing business slowdowns. Reforms supported under Pillar 3 could have environmental effects as they affect how electricity connections are managed, potentially brining more users on to the grid. However, as mentioned above, this operation will not directly finance investments in connections but rather establishing the policy to do so. Although unlikely, potential harmful environmental impacts derived from this policy reform will be limited and will be addressed through the Environmental Assessment procedures defined in national legislation and under the guidance and supervision of the National Environment Office. The Government has in place adequate environmental legislation and adequate experience and capacity implementing the Environmental Assessment procedures, as well as ongoing advisory support by development partners to mitigate risks.

G. Risks and Mitigation

6.1. **The overall risk rating for this operation is substantial.** The main areas of concern with regards to achieving the development objective relate to governance and macroeconomic risks, fiduciary weaknesses, limitations to government's institutional capacity to see required actions and reforms through to their full implementation, and stakeholder risks related to rent-seeking behaviors by well-connected individuals.

- **Politics and governance risk is substantial.** Low capacity in several of sector ministries and other public entities and potential personnel changes for political reasons (following recent Presidential and Parliamentary elections) could undermine effectiveness of the reforms. The team will continue to work with the Government to maintain the strong reform momentum evidenced in the initial months of the crisis.
- **Macroeconomic risk is substantial** and closely related to the management of fiscal risks amid prospects of sharply increasing government deficits, low domestic revenue mobilization, and the possibility of growing contingent liabilities associated with the COVID-19 crisis. This operation mitigates macroeconomic risks by providing emergency financial assistance and reinforcing debt transparency to inform sustainable borrowing policies.
- **Sector Strategies and Policies risk is substantial** but mitigated by the strong leadership of the Prime Minister's Office on the crisis response, and by the multi-sector response plan providing a common framework for crisis response.
- **Technical Design of Program risk is substantial**. This is mitigated through extensive technical assistance.
- **Institutional Capacity for Implementation and Sustainability risk is substantial** given that several of the reform implementation agencies have severe capacity constraints. This is mitigated by several TA programs in key sectors.
- **Fiduciary risk is substantial,** in relation to procurement, audit, and the management of budget dedicated to investment. Risks are mitigated by the transparency measures supported by this operation and the ongoing World Bank's Human Capital DPO (P168697), particularly the publication by the Treasury of detailed public expenditures data; and the establishment of a COVID-19 fund with a clearly defined control and accountability framework.
- **Environment and Social risk is substantial.** Potential environmental risks are associated with increased medical waste. Risks are mitigated by the medical waste management plan and experience within the country to implement it. Financial resources are available through emergency funding and relevant IPFs. There are some social risks regarding Government capacity to discern and respond to the expectations and needs of the most vulnerable. Risks are mitigated by the legislative framework, institutional arrangements, and presence of institutions that conduct environmental and social assessments with adequate capacity to assess risks.
- **Stakeholder risk is substantial** due to potential resistance to reforms from vested interests. This risk will be mitigated through stakeholder consultations backed by communication and outreach activities.
- **Other risks are substantial.** The spread and duration of the COVID-19 crisis both at the national and global levels remain uncertain and hence the extent of both the health and economic impacts.

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APPROVAL

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