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Report Number : ICRR0022067

1. Project Data

Country	**Practice Area(Lead)**
Madagascar	Macroeconomics, Trade and Investment

Programmatic DPL

Planned Operations: 1 **Approved Operations:** 1

Operation ID	**Operation Name**
P160866	MG- Public Finance Sustainability and in

L/C/TF Number(s)	**Closing Date (Original)**	**Total Financing (USD)**
IDA-D1430	31-Dec-2018	62,329,830.00

Bank Approval Date	**Closing Date (Actual)**
22-Nov-2016	31-Dec-2018

	IBRD/IDA (USD)	**Co-financing (USD)**
Original Commitment	65,000,000.00	0.00
Revised Commitment	65,000,000.00	0.00
Actual	62,329,830.00	0.00

Prepared by	**Reviewed by**	**ICR Review Coordinator**	**Group**
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Operation ID	**Operation Name**
P164137	PFSI DPF II (P164137)

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IDA-D1430,IDA-D2460	31-Dec-2018	45,161,468.25
Bank Approval Date	**Closing Date (Actual)**	
16-Nov-2017	31-Dec-2018	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	45,000,000.00	0.00
Revised Commitment	45,000,000.00	0.00
Actual	45,161,468.25	0.00

2. Program Objectives and Policy Areas

a. Objectives

The program development objective of the programmatic Madagascar Public Finance Sustainability and Investment Development Policy Financing Operation I (DPO1) and II (DPO2), was "to strengthen the fiscal framework by creating the fiscal space to support priority expenditures and to improve the environment for investment," according to the Program Document for DPO2 (page 15). The statement of the objective for the series differed slightly in the Program Document for DPO1 (page 10), "to strengthen the fiscal framework and to enhance the environment for investment."

b. Pillars/Policy Areas

The DPF had two policy areas:

Strengthening the Fiscal Framework supported actions to: (a) increase tax revenues; (b) reduce the cost of selected transfers; and (c) strengthen public investment management.

Improving the Environment for Investment supported actions to: (a) promote the recovery of the electricity sector; (b) reinforce commercial justice; and (c) promote the stability of the financial sector.

c. Comments on Program Cost, Financing, and Dates

Program Cost: The cost of the program was estimated at SDR 46.6 million (US$65 million equivalent) for DPO1 and SDR 31.9 million (US$45 million equivalent) for DPO2.

Financing: The program was financed with International Development Association (IDA) grants of SDR 46.6 million (US$62.3 million) to Madagascar in 2016 and SDR 31.9 million (US$45.2 million) in 2018. Both grants were disbursed in single tranches at effectiveness (the US$ equivalent values differed from those at appraisal because of changes in the SDR/US$ exchange rate).

Dates: DPO1 was approved on November 22, 2016, became effective on December 13, 2016, and closed two years later as scheduled on December 31, 2018. DPO2 was approved on November 16, 2017, became effective on December 14, 2017, and closed a year later as scheduled on December 31, 2018.

3. Relevance of Objectives & Design

a. Relevance of Objectives

The program objective was highly relevant to the development priorities of Madagascar at the time of appraisal in 2016-17 and closing in 2018. The "Economic Development Paper (EDP), 2017-2019", implementing the "National Development Plan, 2015-2019", supported measures directed at: "increased revenue", "efficient allocation of public resources", and "access to bank financing." Specifically, the program objective was relevant to the following policies advanced by the EDP:

- "The chief aim of the fiscal policy is to increase revenue and rationalize budget expenditure in order to provide ample margins to finance priority spending, specifically social and infrastructure spending. The priorities are, first, to expand the tax base and continue reform of tax and customs administration, and second, to eliminate the causes of inefficient public expenditure and under-funding of the retirement and pension funds, and the planned reform of the national public institutions" (EDP, page ii).
- "The energy policy includes the continued reform of the electricity and water utility Jiro sy Ramo Malagasy (JIRAMA) ... " (EDP, page iii).
- "The financial system is underdeveloped. ... It must nonetheless address the challenges linked to development imperatives: competition within the sector; ... expanded access for economic agents; ... and sector resilience" (EDP, page ii).

The program objective was highly aligned with the country partnership strategy of the Bank Group in Madagascar at the time of program appraisal in 2016-17 and at the time of program closing in 2018. The "Country Partnership Framework (CPF) for the Republic of Madagascar for the Period FY17-FY21" committed Bank Group support organized around two "focus areas": increasing resilience and reducing fragility; and promoting inclusive growth. The program objective was aligned to the second focus area, specifically with its goals to "support the capacity of the state to increase its fiscal space so that it can finance key public infrastructure and ensure basic service delivery", "improve the business environment", and "improve access to finance" (CPF, page 25), and with the first focus area, specifically with its emphasis on "expanding the state's capacity to mobilize resources and deliver services ... with greater accountability" (CPF, page 24).

Rating
Substantial

b. Relevance of Design

The theory of change was sound. Mobilizing tax revenues, reducing regressive subsidies and transfers, and strengthening public investment management would create the fiscal space (defined as the room to undertake discretionary fiscal policy relative to existing plans without endangering market access and debt sustainability) to support priority expenditures and hence strengthen the fiscal framework for national economic and social development. Promoting the recovery of the electricity sector, reinforcing the integrity of commercial justice, and promoting the stability of the financial sector would improve the environment for investment, which is vital to drive economic growth and development.

The reform areas were directed at major constraints to: (a) a strong framework for fiscal policy --- the government revenue effort was weak, subsidies and transfers were sizable and strained the budget, and public investment management capacity was poor, with capital projects improperly appraised, prioritized, and selected; and (b) an enabling environment for private investment --- costly and unreliable electricity supply hampered economic activity, weaknesses in commercial justice stifled business formation and bank credit, weaknesses in commercial justice impaired creditor rights in debt collection litigation and commercial bankruptcy cases, and major gaps in financial oversight exacerbated poor access to credit by businesses.

The prior actions were supportive of the policy areas and linked to results targets.

On Strengthening the Fiscal Framework:

- The issuance of an *Arrete* (order) in May 2016 limiting the scope of the exemptions regime in the Customs Code; the adoption of an expedited customs clearance process and the use of performance contracts for customs inspectors at the port of Taomasina; the publication of the first annual tax expenditure statement; and the issuance of a *Protocole d'Accord* (agreement) establishing a risk-based procedure for verifying customs and tax data for 20 large high-risk importers and exporters --- would help the government to increase tax revenues.
- The issuance of an *Arrete* establishing an automatic adjustment mechanism for retail fuel prices; the issuance of a decree eliminating the fuel subsidy; the completion of the verification of pension beneficiaries in large urban areas and in rural cooperatives to remove ineligible beneficiaries from the pension register; and the issuance of a *Circulaire* (circular) setting the obligations for payment of pension contributions and sanctions for non-compliance --- would reduce the cost of selected transfers.
- The issuance of a *Decret* (decree) creating the institutional framework, and a *Decret* setting the procedure for awarding contracts for PPPs; and the issuance of a *Circulaire* setting standardized criteria for screening and selecting domestically-financed investment projects, consistent with the *Madagascar National Development Plan, 2015-2019* --- would strengthen public investment management.

On Improving the Environment for Investment:

- The issuance of an *Arrete* requiring the National Commission for Public Procurement (CNM) to review *a-priori* all JIRAMA procurement to verify and ensure compliance by JIRAMA with the provisions of the Public Procurement Code of 2004 and Decree No. 2005-215 on the Public Contracts Regulatory Authority (following previous single-sourcing and other non-competitive procurement practices by JIRAMA); the publication of quarterly data on the cost of electricity per kilowatt-hour for each power supply contract, beginning with the first two quarters of 2016; and the adoption by JIRAMA of standard contracts for all new PPAs --- would promote the recovery of the electricity sector.
- The issuance of a *Circulaire* mandating the random allocation of commercial cases to magistrates; the enactment of a *Loi* (law) amending the provisions of the Malagasy Code of Civil Procedure reducing the number of postponements of commercial cases and integrating commercial justice reforms in the legal framework --- would reinforce commercial justice.
- The completion by the Central Bank of Madagascar (CBM) and the Commission for Banking and Financial Supervision (CSBF) of the on-site inspection of the two largest banks; and the submission by the government to Parliament of the draft *Loi* on microfinance, providing for resolutions schemes for microfinance institutions, the lending portfolio of which is highly concentrated --- would help promote the stability of the financial sector (resolution schemes had been introduced earlier for banks).

The choice of lending instrument was appropriate. The IDA loans series would provide US$60 million in budget support when DPO1 became effective in December 2016, and US$45 million when DPO2 became effective in December 2017. The International Monetary Fund (IMF) projected overall fiscal deficits (cash basis) of 6 percent of GDP in 2018 and 5.2 percent of GDP in 2018, which would be financed by foreign borrowing, domestic financing, and budget support.1/ At the same time, the programmatic series would advance reforms to raise fiscal revenues and reduce tax expenditures, helping strengthen the fiscal framework, among other objectives.

1/ 2017 Republic of Madagascar Article IV Consultation Staff Report

Rating
Substantial

4. Achievement of Objectives (Efficacy)

Objective 1

Objective
To strengthen the fiscal framework by creating the fiscal space to support priority expenditures.

Rationale

The degree of achievement of this objective is assessed as modest.

Increasing Tax Revenues. One of two results targets for increasing tax revenues was achieved.

- Tax revenues rose from 10.1 percent of GDP in 2015 (the baseline) to 12.3 percent in 2019, slightly exceeding the target of 12 percent. Domestic tax revenues increased from 5 percent of GDP in 2015 to 6.5 percent in 2019, and taxes from international trade, from 5.1 percent of GDP in 2015 to 5.7 percent in 2019.
- The value of tax expenditures eliminated was Malagasy Ariary (MGA) 1.3 billion (US$0.4 million) in 2019, far short of the target of MGA 70 billion (US$24.8 million). Tax expenditures are revenue losses attributable to tax laws that allow special exclusions, exemptions, or deductions from gross income or that provide special credits, preferential tax rates, or tax liability deferrals to certain groups of taxpayers or for specific economic activities. The target was based on a commitment by the government to scrap tax expenditures for propane gas, imported edible oil, and paper, the economic and social benefits of which were unproven. But few of the measures in the government's overall plan to eliminate tax expenditures have been implemented. Instead, the government committed to periodically assess the economic and social benefits of tax expenditures to determine which should be discontinued.

Reducing the Cost of Selected Transfers. One of two results targets for reducing the cost of selected transfers was met.

- The cost of selected transfers was reduced from 13 percent of total expenditures in 2015 to 6.4 percent in 2019, missing the target of 3 percent. Transfers to the pension fund were reduced from 6.8 percent of total expenditures in 2015 to 3.8 percent in 2019, missing the target of 1.6 percent. Although the prior actions cleared the pension rolls of illegitimate beneficiaries, a parallel public-sector human resource management reform initiative converted some wage-bill beneficiaries to pension beneficiaries, resulting in a smaller reduction in transfers than planned. Transfers for fuel subsidies were reduced from 1.8 percent of total expenditures in 2015 to 0 percent in 2019, meeting the target. But, reforms to fuel subsidies have not been sustained. The government adopted an automatic adjustment mechanism for fuel prices in 2016, but then reversed course and introduced a smoothing formula to the pricing mechanism. Changes in domestic retail fuel prices lagged as the price of oil rose from US$46 per barrel in June 2017 to US$77 per barrel in October 2018. Government liabilities to petroleum companies rose to 0.6 percent of GDP and payments by petroleum companies to the Road Maintenance Fund, about 0.25 percent of GDP, were cancelled. Until a sustainable pricing mechanism (planned for 2020) is adopted, the government will continue to accrue liabilities to petroleum companies. Subsidies to SOEs were reduced from 5.6 percent of total expenditures in 2015 to 2.6 percent in 2019, missing the target of 1.4 percent. This target was to be achieved through the reduction of transfers to JIRAMA, to cover operational losses, and to Air Madagascar. While the target was missed, budget lines for these transfers are on a declining trend. Moreover, part of JIRAMA's arrears, about one percent of GDP, was paid back in 2019.

- Spending on the social sectors was raised from 0.7 percent of GDP in 2015 to 1.2 percent in 2019, almost meeting the target of 1.3 percent.

Strengthening Public Investment Management. One results target for strengthening public investment management was not applicable; the other was not met.

- There have not been any PPPs approved since 2015. Hence, the target that all (100 percent) of new PPPs follow the appraisal and selection processes mandated under the Law on Public and Private Partnership of 2015 is not applicable. A PPP Directorate, responsible for the budgetary aspects of projects, and a PPP Unit, responsible for project selection and monitoring, both at the Ministry of Finance and Budget, were made operational following the legislation. A pipeline of projects was finalized in 2018, but the PPP Committee, which would approve the projects, was never convened. The new government, elected in 2018, plans to revise the PPP framework and two projects are being considered as pilots. The review was scheduled for the first quarter of 2020, but has reportedly been put on hold (at the time of this ICR Review). Although no project has been approved since 2015, the PPP legislation has created an institution to appraise and select projects and has discouraged unsolicited PPP proposals.
- The percentage of domestically-financed projects, valued more than MGA 5 billion (US$1.4 million), that were subject to the new project appraisal methodology and selection criteria was 0 percent in 2019, in contrast to the target of 100 percent. The target was actually met in 2017 and 2018 with the application of the *Circulaire* standardizing the decision criteria for investment projects. The new government, however, dropped the system after the program closed in 2018 and will prioritize investments based on the President's electoral commitments. The government is preparing instead a new guide for public investment management, with technical assistance from the IMF; the effort is ongoing (at the time of this ICR Review).

Overall, two results targets for this objective were met or nearly met, three were not met, and one concerning PPPs wasn't applicable because no new PPPs were signed over the duration of the series. One of the ten prior actions supporting this objective was reversed, and one was dropped after the program closed.

Rating
Modest

Objective 2

Objective
To improve the environment for investment.

Rationale

The degree of achievement of this objective is assessed as substantial.

Promoting the Recovery of the Electricity Sector. There is no data to assess the achievement of the sole result target defined for the reform of the electricity sector.

- There is no data to assess the target that 70 percent of new power generation contracts (measured relative to the value of all power generation contracts) be awarded competitively and that the contracts be published by 2019. Contracts were not competitively awarded nor publicized in the baseline in 2015. The reforms supported by the prior actions were not maintained. First, although the government issued an *Arrete* requiring the CNM to review a-prior all JIRAMA procurement, no new energy purchase and generator location contract underwent the process prescribed in the *Arrete.* In fact, there was no consolidated list of current PPP contracts, according to the ICR (page 23). Of the little information available --- on some new contracts awarded in the Antananarivo region, and published following the Bank ICR mission --- all contracts signed in 2018 were awarded to the same firm. Second, after the publication by JIRAMA of the first report on the cost of electricity per provider (not per contract, as required) in 2016, JIRAMA did not follow up with the quarterly reporting schedule. A report filed by JIRAMA in 2019 following the Bank ICR mission was "largely incomplete and inaccurate", according to the ICR (page 23). Third, JIRAMA has not systematically used the standard contract for PPAs, developed with the assistance of the Bank. The standard contract does not appear to be adaptable to all types of power generation agreements, according the ICR (page 23).
- On a more positive note, although past the program closing date, the government completed in end-2019 the competitive recruitment of JIRAMA's Managing Director and Chief Operating Officer. The new managers have committed to implement the corporate recovery plan, including continuing with the successful revenue protection and loss reduction program, developing and implementing performance-based pay for the staff, and regularizing and renegotiating costly and un-competitively-awarded PPAs. The Bank is funding legal work for the preparation of the negotiation strategy, the negotiations themselves, and the regularization of the defective contracts. So far, with the legal assistance, JIRAMA has finalized agreement on three contracts, the tariffs and arrears of which have been revised. Following the successful contract re-negotiations, JIRAMA has reportedly partly trimmed it subsidy needs.

Reinforcing Commercial Justice. The two results targets for reinforcing commercial justice were achieved.

- A hundred percent of commercial justice cases were randomly assigned in 2019, meeting the target. Commercial justice cases were not randomly assigned in the baseline in 2015. The random assignment is relevant to the Antananarivo court, where there are 11 magistrates, but less so in the seven other regional courts where there are only one or two magistrates.
- The number of days to resolve a commercial conflict was reduced to 399 days in 2019, exceeding the target of 600 days. The number of days to resolve a commercial conflict was 871 days in 2015. A comparison of this baseline number with the target is problematic because the baseline number, derived from the Bank's *Doing Business* report, uses a different methodology to assess case length than that used

in this operation. The *Doing Business* report uses a theoretical case study with predetermined parameters and applies it to a country, based on a survey of pre-identified respondents. On the other hand, this operation used actual data, compiled from the Commercial Court of Justice of Antananarivo, for end-period reporting. The 399 days achieved under this operation consisted of 21 days for filing, 229 days for judgement to be issued, and 150 days for enforcement of the decision. The reforms also cut the number of postponements of commercial cases to two per party and reduced the length of trials.

Promoting the Stability of the Financial Sector. The sole target for promoting the stability of the financial sector was met.

- A risk-based supervision system was adopted for micro-finance institutions, meeting the target. Following the *Republic of Madagascar Financial System Stability Assessment* of 2016, and with assistance from the IMF's Africa Technical Assistance Center, the CSBF adopted a risk-based framework for the supervision of banks and micro-finance institutions in 2018. Since then, on-site inspections have used this framework. The Microfinance Law of 2017 also included a resolution framework for micro-finance institutions.

Overall, three of four results targets were met or exceeded, and one was not met. Three of seven prior actions could not be sustained, all three pertaining to reforms at JIRAMA, although corrective measures have been pursued with initial success after project closing.

Rating
Substantial

5. Outcome

The program development objective was substantially relevant to the development priorities of Madagascar and substantially aligned with the Bank Group country partnership framework for Madagascar at the time of program appraisal and closing. The degree of achievement of the first objective to strengthen the fiscal framework is rated as modest with two of the six results targets met and two of ten prior actions not maintained. The degree of achievement of the second objective to improve the environment for investment is rated as substantial with three of four results targets met but with three of seven prior actions not sustained, albeit with corrective action after project closing.

a. Outcome Rating
Moderately Satisfactory

6. Rationale for Risk to Development Outcome Rating

The risk to the sustainability of the development outcome of the programmatic series is assessed as high.

Political Risk. Two follow-up actions remain pending: the adoption of an automatic price adjustment mechanism for retail fuel pricing, due in 2020, and the renegotiation of JIRAMA power supply contracts that were un-competitively procured, currently ongoing. At the same time, two remedial measures are expected of the government: the creation of a new public investment management guide, to replace the framework developed under this program but dropped in 2019, and the review of the PPP framework, presumably to help replace the framework developed under this program. Although most of the reform objectives appear to remain on the agenda of the new government, a continuing high-level dialogue with the authorities is essential to continuing the reform effort supported by this series. Uncertainty about the full political ownership of the reforms can put the sustainability of the development outcome at risk.

Macroeconomic Risk. Madagascar remains a low-income country facing considerable economic challenges. Progress in macroeconomic performance and structural reform agenda in recent years has been supported by the IMF Staff Monitored Program (SMP) in 2015-2016 and Extended Credit Facility (ECF) in 2016-2020 (see Section 3.B). According to the IMF 2019 Article IV Consultation staff report and the sixth review of the arrangements under the ECF in January 2020, performance under the IMF program has been "broadly satisfactory with solid growth, moderate single-digit inflation, and a robust external position." However, the outbreak of the COVID-19 pandemic in 2020 is expected to have a severe impact on the economy, with disruptions to mining and manufacturing exports, a decline in tourism, and uncertainty with international trade and investment. The IMF approved an arrangement under the Rapid Credit Facility in April 2020 for SDR 122.2 million (US$166 million) to help Madagascar meet balance of payments problems stemming from the pandemic. The difficult and uncertain global and national macroeconomic environment in the near- to medium-term will pose high risks to sustaining reforms in tax revenue mobilization, tax expenditure reduction, subsidy reform, and public investment management.

Institutional Capacity Risk. Weak governance, especially in some key agencies, poses a high risk to the continuation of the reform effort supported by this series. In the Ministry of Finance and Budget, despite significant improvements in institutional capacity (including through the creation of a Tax Policy Unit), no framework has been established to assess the effectiveness of tax expenditures, according to the ICR (page 27). With the passage in 2017 of new laws granting additional tax incentives to special economic zones, industrial zones, and future agriculture zones, understanding the economic and fiscal effects of tax expenditures becomes even more important. At JIRAMA, the poor record at maintaining the reforms supported by this series (see Section 4 - Objective 2) indicates that sustaining efforts at promoting the recovery of the electricity sector will likely remain challenging.

a. Risk to Development Outcome Rating

High

7. Assessment of Bank Performance

a. Quality-at-Entry

The policy areas were underpinned by analytic work produced by the Bank and the IMF, as well as the government, according to the Program Document for DPO1 (pages 20-21) and DPO2 (pages 25-26): On Strengthening the Fiscal Framework: (a) World Bank, policy note on customs data mirror analysis; (b) IMF, Tax Policy Diagnostic report, 2015; (c) IMF, Tax and Customs Administration report, 2014; (d) Ministry of Finance and Budget, tax and customs administration data and analysis; (e) World Bank, analysis of pump price subsidies, 2014, 2017; (f) IMF, technical assistance on pump price subsidies; (g) World Bank, analysis of pension funds, 2016; (h) IMF, technical assistance on pension funds, 2017; and (i) IMF, Public Investment Management Assessment, 2017. On Improving the Environment for Investment: (a) World Bank, re-engagement policy notes, 2014; (b) World Bank, Doing Business survey; (c) World Bank, Enterprise Survey, 2013-14; (d) World Bank, *Doing Business* report, 2016; (e) World Bank, study of the commercial justice system; and (f) IMF and World Bank, Financial System Assessment Program, 2015.

The programmatic series complemented other Bank investment projects and technical assistance operations with related development objectives, according to the Program Document for DPO1 (page 22) and DPO2 (page 27), including: On Strengthening the Fiscal Framework: (a) the Public Sector Performance Project (approved in 2016), which aimed to strengthen revenue mobilization by establishing a tax information management system and introducing performance contracts at the Tax and Customs Department; (b) the ESMAP Energy Subsidy Reform Facility technical assistance, which assisted the government with reforms to the fuel pricing mechanism; (c) the Social Safety Net Project (2015), which aimed to increase the access of extremely poor households to safety net services and to lay the foundation for a social protection system; (d) the Support to Strengthen Public Investment, Risk and Debt Management Project (2015), which aimed to improve fiscal management in Madagascar and Mozambique through the provision of technical assistance for enhanced public investment, and risk and debt management; and (e) the Energy Sector Operations and Governance Improvement Project (2016), which aimed to improve the operational performance of JIRAMA and improve the reliability of electricity supply in the country. On Improving the Environment for Investment: (a) the Integrated Growth Pole Project (2005), which aimed to strengthen the business environment for exports in Antananarivo-Antsirabe, tourism in Nosy Be, and mining and tourism in Taolagnaro; and (b) the Microfinance Supervision Project (2015), which aimed to help improve the legal, regulatory, and institutional capacity for adequate supervision of the microfinance sector.

The macro-fiscal framework was adequate for the programmatic series. Macroeconomic performance was broadly satisfactory under the IMF SMP from September 2015 to March 2016. Macroeconomic targets were met through March 2016, with the exception of the ceilings on net credit to government and new external payment arrears. Tax revenue began to improve gradually, and priority social spending targets were met. An accumulation of foreign exchange reserves boosted external buffers. Progress in structural reform included: strengthened audits and controls for revenue collections; the submission to Cabinet of a revised Central Bank Act; the approval by the Cabinet of a National Social Protection Policy; better functioning and transparency of the foreign exchange market; and a new database to enhance debt management capacity. In 2016, the IMF approved a 40-month SDR 220 million (US$305 million)

ECF arrangement for Madagascar, to help reinforce macroeconomic stability and boost sustainable and inclusive growth. In 2017, the IMF expanded the access to SDR 250.55 million (US$347 million), and in 2019, extended the term for another three months to February 2020. The reforms supported by the series were consistent and aligned with the IMF SMP and the ECF.

The Bank identified risks to the implementation of the reforms and offered mitigation measures.

- Political tensions and weak governance were high risks to maintaining the reform momentum. Discontinuing fuel subsidies and containing losses at JIRAMA were pro-poor, but politically sensitive and might be reversed if political tensions mounted as the Presidential elections neared. To mitigate the risks, the Bank: embedded governance and transparency measures in the program, aimed to strengthen governance through the Public Sector Performance Project, and coordinated with the IMF to maintain the reform agenda.
- Macroeconomic risk was substantial, particularly fiscal risk. The Bank considered the budget support provided by the series, and financing by the IMF ECF, to be mitigation measures. The Bank also supported operational reform measures at JIRAMA to reduce claims by the utility on the budget. Separately, the government had negotiated with most of his creditors to stretch its arrears clearance schedule.
- Weak Institutional capacity was a significant risk. Actions supported by the program might not be implemented as effectively as expected or in the agreed time frame. To mitigate the risk, the Bank designed the series to be complementary to other investment projects and technical assistance operations, which taken together would offer a comprehensive support environment for the reform program.

Quality-at-Entry Rating
Moderately Satisfactory

b. Quality of supervision
The Bank supervised the program by fielding missions to Madagascar and consulting and meeting regularly with the Ministry of Finance and Budget. The Bank also used activity at other projects to help supervise the implementation of the reform measures: the Public Sector Performance Project, for tax revenue-related reforms; the Integrated Growth Pole Project, for PPP framework and commercial justice reforms; and the Microfinance Supervision Project for microfinance institution supervision reforms.

According to the ICR (page 29), the Bank found the difficult political environment to have constrained corrective action when: reviews by CNM of JIRAMA procurement proved ineffective; the next quarterly reports on electricity costs were not published; and the standard contracts prepared with the assistance of the Bank were not used.

The Bank did not file any Implementation Results and Status Report (ISR), as none was required. The

Government shared a government supervision report mid-way through implementation which informed the preparation of this ICR.

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

8. Assessment of Borrower Performance

a. Government Performance

The government conveyed its commitment to the reform measures supported by the series. The Minister of Finance and Budget issued, in September 2016 and September 2017, the first and second Letters of Development Policy that were made part of the Program Document for DPO1 (pages 32-39) and DPO2 (pages 39-46). The letters informed the Bank of the fulfillment by the government of the prior actions and affirmed the government's commitment to the objectives of the series.

However, some reform measures, or aspects of reform measures, were only partially completed or even reversed, albeit with remedial steps expected moving forward.

- The automatic adjustment mechanism for retail fuel prices was effectively reversed with the introduction of a price smoothing formula (see Section 4 - Objective 1).
- Under 2 percent of tax expenditure reduction targets were delivered after two years of program implementation (see Section 4 - Objective 1).
- The criteria-based process for selecting domestically-financed public investment projects was dropped after the program closed in end-2018 (see Section 4 - Objective 1), although a new guide is being prepared, with technical assistance from the IMF.
- The PPP framework is being reviewed by the new government (see Section 4 - Objective 1), ostensibly with a revision expected.
- PPAs and generator rentals have not been competitively procured; the quarterly data on the cost of electricity per provider (not per supply contract as required) has not been published since 2016; and standard contracts prepared under this program for PPAs are not systematically used. The CNM has not been able to review JIRAMA procurement (see Section 4 - Objective 2), although un-competitively procured PPAs are being renegotiated.

Government Performance Rating

Moderately Unsatisfactory

b. Implementing Agency Performance

The Ministry of Finance and Budget was the principal implementing agency of the programmatic series. Various other agencies implemented measures supported by the series: the General Directorate of Customs, for changes to the customs clearance process and use of performance contracts; the General Tax Administration, for a risk-based procedure to identify tax and customs data; the Ministry of Energy and Hydrocarbons, for changes to the fuel pricing system; the CNM for the review of JIRAMA contracts; the JIRAMA, for changes to contracting for PPAs, fuel purchases, and generator rentals and for transparency with electricity costs; the Ministry of Justice for commercial justice reforms; the CBM and CSBF for the onsite inspection of commercial banks; and the CBM for changes to the supervision framework for microfinance institutions.

The performance of the General Directorate of Customs, General Tax Administration, the Ministry of Justice, the CBM, and the CSBF were satisfactory (see Section 4). The performance of Ministry of Finance and Budget, the Ministry of Energy and Hydrocarbons, the CNM, and JIRAMA fell short of expectations (see Section 4 and Section 8.A).

Implementing Agency Performance Rating

Moderately Satisfactory

Overall Borrower Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The M&E plan defined six results indicators to measure the achievement of the objective to strengthen the fiscal framework, and four to measure the achievement of the objective to improve the environment for investment (see Section 4). Of these indicators, only two were readily available --- the revenue effort (tax revenue as a percentage of GDP) was published in government budget reports, while the number of days to resolve a commercial dispute was reported by the Ministry of Justice in its website. Most other data would have to be secured by sending a data request to: the Ministry of Finance and Budget --- tax expenditures eliminated, transfers reduced (as a share of total expenditures), domestically-financed capital investment projects (greater than MGA 5 billion) that were selected following the new appraisal and selection methodology, and new PPP projects that were screened following the new appraisal and selection methodology; the CSBF --- the extent of risk-based supervision of microfinance institutions; and the JIRAMA --- new PPAs that were competitively awarded. Finally, data for two indicators could be drawn from other programs --- priority spending on social sectors, from the IMF ECF, and the number of commercial cases randomly assigned to magistrates, from the Integrated Growth Pole Project.

The Ministry of Finance and Budget, as principal implementing agency of the program, would be responsible for M&E implementation.

b. M&E Implementation

There were many issues with M&E implementation, according to the ICR (pages 13-15).

- The Ministry of Finance and Budget and the CSBF were forthcoming with M&E data, but JIRAMA was less so.
- Monitoring was initially conducted with the Economic Council meeting the Bank staff to review program implementation, but the outcomes of the meetings were not documented in official records.
- The result indicators were reviewed when DPO2 was prepared in 2017, covering results in 2016.
- An ISR internal to the program team was to be prepared at the end of 2018, but information for the report was not all readily available; hence, the report was not filed as planned.
- As the Economic Council was deactivated, systematic M&E implementation became even more difficult.

c. M&E Utilization

According to the ICR (page 16), some M&E data from the program remained relevant to the government even as the program closed in end-2018. For example, Ministry of Finance data on tax expenditures are reportedly useful to policy discussions on tax expenditure reform. The Ministry of Justice has continued to publish information on the resolution of commercial disputes in its website.

M&E Quality Rating

Substantial

10. Other Issues

a. Environmental and Social Effects

Environmental Effects. According to the Program Document for DPO1 (page 25) and DPO2 (pages 29-30):

- The reforms under the series were expected to have positive climate co-benefits of US$6.6 million (based on the new Multilateral Development Bank methodology for assessing climate co-benefits), with the removal of the fuel subsidy assigned 100 percent mitigation co-benefits, the improvement in the procurement regime to increase hydro-power generation assigned 50 percent mitigation co-benefits, but with the elimination of the exemption on propane gas expected to be insignificant.
- The scaling-up of investments and PPPs might have potential environmental impacts, which would depend on the nature of the project, but which would be regulated by the Madagascar Environmental Charter and other regulations. The laws required all investment projects that were likely to have an environmental impact to prepare an Environmental and Social Impact Assessment which must be approved by the Ministry of Environment, and published in the National Environment Office (NEO). The

environmental impact assessment might require a Project Environmental Management Plan, the execution of which would be monitored by the NEO. The PPP decree required that a preliminary assessment be made to estimate environmental and social feasibility of a PPP project and that this information be presented in a risk matrix.

- The reforms to JIRAMA would have the potential to increase the use of renewable energy, the environmental impact of which would be positive. However, most of these likely projects were at an early stage, making it difficult to quantify the environmental effects.

The ICR did not discuss the environmental effects of the operation.
Social Effects. The Program Document for DPO1 (pages 23-24 and 43-44) and DPO2 (pages 28-29 and 49-50) expected the reform measures to have generally positive social effects.

- Reforms to fuel subsidies, tax expenditures, and transfers to the pension fund were expected to significantly reduce the extent to which public spending was regressive. According to the household survey of 2012, the top quintile of the income distribution benefitted from an estimated 40 percent of total expenditures due to the un-targeted nature of subsidies on fuel. Similarly, some 73 percent of future pension beneficiaries (public sector employees, including those in SOEs, who are entitled to social benefits) were in the top consumption quintile, while 17 percent were in the fourth quintile. Moreover, the tax expenditures to be cancelled pertained to goods that were not typically consumed by the poor, such as sports clothes and propane gas.
- While the operation was expected to have an overall positive poverty and social impact, some mitigation measures were needed for certain households. Fuel subsidy removal was expected to have the largest effect on the distribution of income, while the elimination of certain tax expenditures and exemptions and the reduction of budget transfers to the pension fund might also have welfare effects.
- The effects of the reforms on the poor would need to be mitigated by scaling-up social safety nets. Because of their dependence on kerosene for lighting, the bottom 40 percent of the population accounted for 14 percent of total fuel consumption in 2012. Although the reforms would result in only a marginal increase in the price of kerosene, the removal of the subsidy would nonetheless reduce the purchasing power of households in the bottom 40 percent by 1 percent.

The ICR (pages 26-27) stated that reforms supported by the series had generated the potential for positive distributional effects, including by creating the fiscal space for social spending, but that these social effects would take time to materialize.

b. Fiduciary Compliance

Financial Management. The Program Document for DPO1 (page 26) and DPO2 (page 31) stated that the IDA grant would be disbursed following standard IDA procedures for DPOs, with the grant proceeds disbursed into a dedicated U.S. dollar-denominated account designated by the government as part of the country's foreign exchange reserves account at the Central Bank of Madagascar and with an equivalent

amount credited in the government's budget management system. The ICR did not cite any problem with the financial management of the operation.

c. Unintended impacts (Positive or Negative)

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d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	---
Risk to Development Outcome	High	High	---
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	---
Quality of ICR		Substantial	---

Note

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

12. Lessons

Three lessons are drawn from the ICR (pages 31-32), with some adaptation.

Policy and structural reform programs should consider political economy risks and design mechanisms for governments to address these risks. In this series, vested interests protecting tax expenditures remained formidable while ability of the Ministry of Finance and Budget to cut tax expenditures was limited. The dynamic is reflected in the minimal rate of tax expenditure reduction that was achieved, under 2 percent of the target after two years of program implementation. With the electricity sector reforms, governance at JIRAMA was weak, with the utility company unable to compile basic information on PPA contracts or to publish data on electricity costs beyond the first report.

Development policy operations benefit from having complementary Bank investment and technical assistance projects and IMF programs that support the DPO objectives. In this series, seven concurrent Bank investment and technical assistance projects and two IMF programs and technical assistance helped sustain the policy dialogue with the authorities for this DPO series, delivered technical assistance to agencies in implementing prior actions and related measures, and helped monitor progress towards the program results targets. The complementary operations also served to compensate for some gaps in the DPO performance --- when the new government dropped the public investment decision framework developed under this Bank operation after the program closed in 2018, the IMF's technical assistance program in Madagascar helped the government prepare a new public investment guide for capital projects.

Development policy operations need strong M&E arrangements when several implementing agencies are involved. In this series, where no ISR was required, M&E implementation depended on ad-hoc arrangements for review meetings, internal and informal ISRs, and individual data requests fielded with implementing agencies. An M&E unit at possibly the Prime Minister's office would have centralized responsibility at a higher bureaucratic level and drawn ready participation from implementing agencies.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR presents a comprehensive record of the programmatic series. A list of the Bank, IMF and government analytical work underpinning the reform objectives and measures is found in Annex 4 (ICR, pages 38-41). The objectives, policy areas, and prior actions are detailed in Sections 1.2, 1.3, 1.4 and 1.5 (ICR, pages 4-9). The ICR lists the data sources for the 10 results indicators and indicates which are generated by the series, as well as those which are reported on a systematic basis, in Table 6 (ICR, pages 14-15). The document provides a comprehensive review of the achievement of the program objectives in Section 3.2 (ICR, pages 19-24).

The ICR offers a candid assessment of the results of the programmatic series. The document does not only report on whether the 10 results targets were achieved, but whether the 17 prior actions were maintained following their completion at program effectiveness. "Table 7 - Evaluation of Progress Toward the PDOs" (ICR, page 26) provides a useful summary of this assessment --- the public investment decision framework was dropped after the program closing date, and the three reforms to JIRAMA contracting, electricity cost reporting, and contract standardization were not maintained following the completion of the prior actions.

There are minor shortcomings. The ICR (pages 19-24) rates the efficacy of the objectives and sub-pillars as either satisfactory, moderately satisfactory, moderately unsatisfactory, and unsatisfactory --- presumably using the six-point scale used for rating outcome (highly satisfactory, moderately satisfactory, moderately

unsatisfactory, unsatisfactory, highly unsatisfactory). However, efficacy should be rated using a four-point scale (high, substantial, modest, negligible). Moreover, the ICR is too lengthy at 33 pages, more than double the maximum length of 15 pages.

a. Quality of ICR Rating
Substantial