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Report No: PGD73

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED DEVELOPMENT POLICY GRANT

IN THE AMOUNT OF SDR 63.2 MILLION
(US\$87 MILLION EQUIVALENT)

AND A

PROPOSED DEVELOPMENT POLICY CREDIT

IN THE AMOUNT OF SDR 9.5 MILLION
(US\$13 MILLION EQUIVALENT)

TO THE

REPUBLIC OF MADAGASCAR

FOR THE

INVESTING IN HUMAN CAPITAL DEVELOPMENT POLICY FINANCING

February 28, 2020

Health, Nutrition and Population Global Practice
Africa Region

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The World Bank

Investing in Human Capital Development Policy Financing (P168697)

Republic of Madagascar
GOVERNMENT FISCAL YEAR
January 1 – December 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of January 31, 2020)
Currency Unit = Ariary
US\$1.00 = SDR 0.72624278
US\$1.00 = Ariary 3 617.39

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ABBREVIATIONS AND ACRONYMS

ACTP	Productive Cash for Work (<i>Argent Contre Travail Productif</i>)
AECP	Commitment Authorization of Payment Credit (<i>Autorisation d'Engagement de Crédit de Paiement</i>)
AFD	French Agency for Development (<i>Agence Française de Développement</i>)
AfDB	African Development Bank
AUGURE	Single System for the Uniform Management of State Human Resources (<i>Application Unique pour la Gestion Uniforme des Ressources Humaines de l'Etat</i>)
BIANCO	Independant Anti-corruption Bureau (<i>Bureau Independant Anti-Corruption</i>)
CAE	Pedagogic Aptitude Certificate (<i>Certificat d'Aptitude Pédagogique</i>)
CBM	Central Bank of Madagascar
CC&CV	Climate Change and Climate Variability
CCOC	Citizens and Organizations Collective (<i>Collectif des Citoyens et des Organisations Citoyennes</i>)
CEDAW	Convention on the Elimination of all Forms of Discrimination Against Women
CISCOs	Ministry of Education School District (<i>Circonscription Scolaire</i>)
COGES	Management Committee (<i>Comité de Gestion</i>)
CONAMEPT	National Education for All (<i>Coalition Nationale Malagasy pour l'Education Pour Tous</i>)
COSAN	Health Committee (<i>Comité de Santé</i>)
CPF	Country Partnership Framework
CSB	Public Primary Health Center (<i>Centre de Santé de Base</i>)
DPF	Development Policy Financing
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
EU	European Union
FEFFI	School Management Council (<i>Farimbon'Ezaka ho Fahombiazan'ny Fanabeazana eny Ifotony</i>)
FIAVOTA	Emergency Drought Response Program (<i>Programme Rescousse</i>)
FID	Fund for Development Interventions (<i>Fond d'Intervention pour le Développement</i>)
FRAM	Parents' Associations (<i>Fikambanan'ny Ray Aman-drenin'ny Mpianatra</i>)
GBV	Gender-based Violence
GDP	Gross Domestic Product
GoM	Government of Madagascar
HCI	Human Capital Index
HRM	Human Resources Management
IDA	International Development Association
IFRS	International Financial Reporting Standards
IMCI	Integrated Management of Child Illness
IMF	International Monetary Fund
JIRAMA	State Electric Utility and Water Services Company (<i>Jiro Sy Rano Malagasy</i>)
LDP	Letter of Development Policy
MCH	Maternal and Child Health
MEF	Ministry of Economy and Finance
MENETP	Ministry of Education and Technical and Vocational Training (<i>Ministère de</i>

	<i>l'Education Nationale et de l'Enseignement Technique et Professionnel)</i>
MICS	Multiple Indicator Cluster Survey
MTEF	Medium-Term Expenditure Framework
MTEFPLS	Ministry of Labor, Employment, Civil Service and Social Laws (<i>Ministère du Travail de l'Emploi, de la Fonction Publique et des Lois Sociales</i>)
NAP	National Adaptation Plan
ONN	National Nutrition Office (<i>Office National de Nutrition</i>)
PAEB	Basic Education Improvement Project
PAPSP	Public Sector Performance Project (<i>Projet d'Appui à la Performance du Secteur Public</i>)
PARN	Improving Nutrition Outcomes (<i>Projet d'Amélioration des Résultats Nutritionnels</i>)
PEFA	Public Expenditure and Financial Assessment
PEM	Emerging Madagascar Plan (<i>Plan Emergence Madagascar</i>)
PER	Public Expenditure Review
PFM	Public Financial Management
PNDS	National Health Development Plan (<i>Plan National de Développement de Santé</i>)
PPP	Purchasing Power Parity
PRODIGY	Digital Governance and Identification Management System Project (<i>Projet de Gouvernance Digitale et d'Identité Malagasy</i>)
PSE	Education Strategic Plan (<i>Plan Sectoriel de l'Education</i>)
PSIA	Poverty and Social Impact Assessment
RMNCAH-N	Reproductive, Maternal, Newborn, Child and Adolescent Health and Nutrition
RPI	Internal Domestic Financing (<i>Ressource Propre Interne</i>)
SCD	Systematic Country Diagnostic
SDG	Sustainable Development Goals
SDI	Service Delivery Indicator
SDR	Special Drawing Rights
SNLME	National Strategy on Child Marriage (<i>Stratégie Nationale de Lutte Contre le Mariage d'Enfants</i>)
SIGFP	Integrated Financial Management Information System (<i>Système Intégré Informatisé de Gestion des Finances Publiques</i>)
SOE	State-owned Enterprise
SORT	Systematic Operations Risk Rating Tool
TA	Technical Assistance
TFR	Total Fertility Rate
TMDH	Human Development Cash Transfers (<i>Transfert Monétaire pour le Développement Humain</i>)
UNESCO	United Nations Educational, Scientific, and Cultural Organization
UNICEF	United Nations Children's Fund
VAT	Value-added Tax
WB	World Bank
WBG	World Bank Group
WDI	World Development Indicators



REPUBLIC OF MADAGASCAR

INVESTING IN HUMAN CAPITAL DEVELOPMENT POLICY FINANCING

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P168697	Yes	1st in a series of 2

Proposed Development Objective(s)

The development objective is to support the Government of Madagascar's investment in human capital, through improving human resources in health and education, availability and predictability of financial resources in the social sectors, and legal protections for women and children.

Organizations

Borrower: REPUBLIC OF MADAGASCAR

Implementing Agency: MINISTRY OF PUBLIC HEALTH

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Financing	100.00
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DETAILS

International Development Association (IDA)	100.00
IDA Credit	13.00
IDA Grant	87.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Substantial



Results

Indicator Name	Baseline	Target
<i>Pillar 1--- Better qualified, distributed, and performing human resources in education and health sectors</i>		
Indicator #1: Percentage of teachers registered in AUGURE that are classified as per the positions laid out in the approved Teacher Performance Standards.	N/A	At least 35% (2021)
Indicator #2: Number of teachers recruited, and contracts awarded according to new recruitment procedures/issuance of contracts.	800 (2018)	Over 10,000 (2021)
Indicator #3: Proportion of paramedical graduates from private institutions that passed the public service entrance examination.	64% (2018)	At least 80% (2021)
Indicator #4: Percentage of schools and CSBs that meet sectoral human resources standards, according to AUGURE.	0 (2019)	50% (2021)
<i>Pillar 2---More transparent and predictable investments in human capital</i>		
Indicator # 5.1 Total minimum amount disbursed annually to the FID budget line for priority social safety nets and Ministry of Population, Social Protection and Women’s Promotion (MPSPPF) budget line for social protection policy management, monitoring and evaluation from domestic public financing.	0 (2019) US\$2.56 million (2019)	Over US\$5 million (2021) At least US\$2.56 million (2021)
Indicator # 5.2: Number of households covered by the priority social safety nets from domestic public financing.	0 (2019)	Over 30,000 (2021)
Indicator #6: Percentage of budget law allocations to CSB disbursed by Communes for health facilities.	0 (2019)	At least 85% (2021)
Indicator #7: Percentage of budget expenditures made in the social sectors according to their programmatic classification.	34.7% (2019)	At least 35% (2021)
Indicator #8: Reduction of the amount of tax exemptions as a proportion of overall fiscal revenues.	23% (2018)	At most 15% (2021)
<i>Pillar 3--- Stronger legal frameworks for the protection of women and children</i>		
Indicator #9: Number of communities (<i>fokontany</i>) that have signed the pledge to combat child marriage.	0 (2019)	Over 1,000 (2021)



IDA PROGRAM DOCUMENT FOR A PROPOSED GRANT AND CREDIT
TO THE REPUBLIC OF MADAGASCAR

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This Program Document proposes a US\$100 million equivalent Programmatic Development Policy Financing (DPF).** Its objective is to support the Government of Madagascar (GoM) investment in human capital, through improving human resources in health and education, availability and predictability of financial resources in the social sectors, and better protections for women and children. This is the first DPF in a planned programmatic series of two operations (for Fiscal Years 2020 and 2021, with US\$100 million equivalent per operation).

2. **Improving Madagascar's investment in its people is critical to reverse alarming trends in poverty and human capital development.** Madagascar is one of the poorest countries in the world. From 2001 to 2012 (the last available survey), estimated extreme poverty increased from 69 to 78 percent of the population, while absolute poverty rose from 85 to 91 percent.¹ Two political crises since 2001, severe climatic shocks, disruptions in market access, and pronounced global food price fluctuations have taken a toll on the already limited capacity of the population to achieve its full potential. According to the Human Capital Index (HCI), a child born in Madagascar today will be 37 percent as productive when she grows up as she could be if she enjoyed complete education and full health. Between 2012 and 2017, Madagascar's HCI decreased from 0.39 to 0.37, placing it below regional and income group averages.

3. **Inadequate service delivery in education, health, and social protection is an important driver of these trends.** Children in Madagascar can expect to complete 7.5 years of schooling by age 18, reduced to 4.2 years when adjusted for quality of learning. Globally, Madagascar has the fourth highest rate of stunting among children under five (47 percent), associated with delays in cognitive development, low educational attainment, and poor health outcomes. Despite the severe impacts of political, economic, and climate-related shocks on the most vulnerable, Madagascar's nascent, under-financed social protection system reaches only 5 percent of the extreme poor. Limited access to basic, quality health and nutrition services further impedes human capital development, particularly for mothers and children.² Forty-seven percent of deaths are still attributable to largely preventable communicable, maternal, neonatal, and nutritional conditions,³ many of which are expected to increase in prevalence as a result of climate

¹ Extreme poverty is defined as per capita daily consumption under US\$1.90 Purchasing Power Parity (PPP). Absolute poverty is defined as US\$3.1 PPP per capita per day.

² This is illustrated by key service indicators: Child health monitoring (0 to 11 months and 1 to 5 years old) at 52 percent; integrated management of child illness (IMCI) at 34 percent; receipt of four antenatal care (ANC) visits of pregnant women at 26 percent; assisted deliveries at 26 percent; and reproductive health and family planning service access at 28 percent (Sources: Health Statistics Yearbook, IMCI Strategic Plan, INSTAT 2012-13).

³ Institute for Health Metrics and Evaluation, 2017. Global Burden of Diseases.



change⁴. Infant and child mortality rates, and the maternal mortality ratio, remain high.⁵

4. Improving human capital outcomes requires better human resource investments in teachers and health professionals, to address inadequate resources, distribution, training, and management. Nearly 80 percent of health spending is allocated to human resources. Nonetheless, in public facilities there is only one doctor available per 10,500 inhabitants, one nurse per 8,400 inhabitants, and one midwife for 15,000 inhabitants, far from World Health Organization standard (e.g. 22.3/10,000 for doctors). This is exacerbated by pronounced regional disparities. While 77.5 percent of the consultations in the public health sector are at primary health care facilities (*Centre Santé de Base*, CSB)⁶, these facilities absorb only 27 percent of wages.⁷ Moreover, health personnel are poorly prepared: none of the clinicians interviewed during the Service Delivery Indicator (SDI) survey correctly diagnosed five tracer conditions, and only 22 percent adhered to clinical guidelines for managing maternal and newborn complications. The capacity of public health training institutions is limited by the lack of financial resources, shortage of qualified teachers, and outdated curricula. There has also been a proliferation of low-quality private sector training institutions, from which only 13 percent of candidates were able to pass the public service entrance exam in 2018. While institutions currently must receive accreditation certificates from the Ministries of Health and Higher Education, there is no effective regulatory body to ensure accreditation quality.

5. In the education sector, the Government's inability to cover teacher salaries over the last decade has resulted in widespread recruitment by communities themselves, without guidance or quality control. In 2014, with a political promise to convert community teachers onto contracts, the Ministry of Education and Technical and Vocational Training (*Ministère de l'Éducation Nationale et de l'Enseignement Technique et Professionnel*, MENETP) unsuccessfully tried to halt new teacher recruitment. The number of unsubsidized community teachers without formal training or qualification has risen to 47,000. Those contracted since 2014 were selected without consideration of merit or equitable distribution.⁸ Together with the overall deterioration of salaries, training, and career management⁹, this has contributed to pervasive underqualification. Only one in 1,000 teachers in Madagascar has the minimum requirements to teach math and French.¹⁰

6. Weak human resource management (HRM) systems contribute to understaffed health facilities and schools, inequitable personnel distribution, wastage on "ghost workers"¹¹, and lack of planning capacity. The Single System for the Uniform Management of State Human Resources (*Application Unique*

⁴ Madagascar Climate Change and Health Diagnostic, 2018.

⁵ Infant mortality was 40 per 1,000 live births in 2018; child mortality was 59 per 1,000 live births in 2018; maternal mortality ratio was 426 per 100,000 live births in 2018 (Demographic and Health Survey (2018).

⁶ Source: National Survey on Millennium Development Goals in Madagascar, 2012-13. 56.1 percent of health consultations are in the public sector while 43.9 percent are in the private health sector, and 43.4 percent of visits are at public primary health care.

⁷ Madagascar Public Expenditure Review (PER) Health Sector Background Paper, 2015.

⁸ Contract teachers receive 330,000 Ar per month, while (unsubsidized) community teachers receive whatever the community can afford (as low as 120,000 Ar per year). Subsidized community teachers receive 110,000 Ar per month.

⁹ At the time of independence, students could expect to be taught by teachers that had obtained a Pedagogic Aptitude Certificate with one year of in-service training. By 2019, only 21 percent of teachers in public primary schools had such a diploma, with the overwhelming majority receiving no training at all. Salaries today are dramatically lower, with the highest paid civil servants in classrooms earning approximately US\$160 per month (down from US\$400), and contract teachers only US\$86 per month.

¹⁰ Source: Service Delivery Indicator Survey, 2016.

¹¹ Estimated at 10 percent, according to a Government payroll control exercise ("*contrôle des états de paie*") in 2017.



pour la Gestion Uniforme des Ressources Humaines de l'Etat, AUGURE) is fragmented and incomplete, and both the ministries of health and education manage their human resources through ad hoc spreadsheets. This results in an opaque geographic distribution of staff, with no independent oversight. In the health sector, there is little processable information available on the qualification or specialization of health personnel. For education, the systems only reflect the estimated 90,000 contract teachers and civil servants, leaving the 83,000 community teachers (subsidized and unsubsidized) unaccounted for in the official register.

7. Improved investments in human capital requires more efficient and transparent budget allocation and execution. Madagascar spends less on health, education, and social protection than the average of its Sub-Saharan African counterparts (as a percentage of gross domestic product (GDP)). Public access to interpretable data on budget execution is required for public and legislative oversight to improve responsiveness and accountability of expenditure. Line ministries are also unable to systematically access expenditure data through the integrated financial management information system (*Système Intégré Informatisé de Gestion des Finances Publiques, SIGFP*), making it difficult to follow up on transaction closures, exacerbating inefficiencies in procurement, planning, and expenditure controls. Moreover, despite efforts to improve, Madagascar currently publishes minimal budget information and provides few opportunities for the public to engage in the budget process. In the 2017 Open Budget Index, Madagascar scored 34 out of 100, placing the country in the “minimal transparency” category. Madagascar registers the weakest performance in the area of public participation (9/100) and budget oversight by legislative and audit bodies (28/100). Limited public consultation is exacerbated by the lack of appropriate channels that allow informed assessments, in addition to late and inconsistent publications of budget reports.¹²

8. Increasing the flow of funds to frontline service providers is critical to address acute resource shortages. Two-thirds of overall health expenditure, and over 95 percent of health investment expenditure, are centralized. In 2017, 4.7 percent of the health sector budget¹³ was executed at the district level, of which 55 percent was intended for the 2,600 CSBs (less than US\$1,000 per CSB per year).¹⁴ In practice, these funds arrive from districts “in-kind” (if at all), with little input from the clinics themselves on their needs. This stems from overall low allocation to districts and communes, cumbersome budget execution procedures, lack of a coherent decentralization policy, and the absence of rationalized allocation criteria. These inefficiencies perpetuate acute gaps in basic inputs and infrastructure in Madagascar’s public primary health care facilities¹⁵, where 43.5 percent of health visits happen, and in rural communes, in which two-thirds of the population resides.¹⁶ These gaps are particularly detrimental to low-income women and children under five, who bear a disproportionate share of Madagascar’s total disease

¹² To illustrate, the country’s PFM legislation provides that end year reports are only legally mandated n+2 following the end of fiscal year, which contravenes international standards for budget publication such as PEFA. The lack of reporting on actual expenditures in an analogous format with the budget law impedes comparability across sectors, years and type of expenditures.

¹³ Source: SIGFP. Does not include salaries of staff working at the district level.

¹⁴ Source: Ministry of Public Health.

¹⁵ Only 48 percent of priority drugs and 53.4 percent of vaccines were available in health facilities, and 62 percent of these met the minimum medical equipment requirements – of those first-tier facilities only met 7.4 percent of these requirements. Only 17.7 percent of all facilities are equipped to offer basic emergency obstetric care (SDI).

¹⁶ Rural communes receive less than 5 percent of health expenditures.



burden.¹⁷

9. Madagascar’s social safety nets (SSN) are underfunded, yet they are a proven channel for boosting human capital and empowering women. Three key programs are being implemented (see section 4.2). Evaluations have indicated these programs are highly cost effective, averaging approximately US\$17 per person per year to generate considerable human capital gains. These include improvements in access to education, child cognitive capacities and language development, long-term food security, family-based economic activities and asset holdings, and reductions in child wasting and child labor.¹⁸ Transfers have also disproportionately benefited rural women.¹⁹ Reforms are required to consolidate and expand these programs, the coverage of which is currently limited. While other Sub-Saharan Africa countries allocate an average 1.2 percent of GDP to SSNs, Madagascar devotes only 0.3 percent, resulting in low coverage of the extreme poor (only 5 percent, compared to the average of 28 percent in the region).

10. Reducing child marriage and early pregnancy and promoting gender equality are essential to improve human capital results and advance Madagascar’s demographic transition. Reductions in fertility rates are important to reduce health and malnutrition risks for children and mothers, boost human capital investment and economic growth, and mitigate environmental pressures. Associated with high rates of child marriage, Madagascar has one of the highest rates of adolescent pregnancy in Sub-Saharan Africa (151 per 1,000 women aged 15-19). This contributes to the overall high total fertility rate (TFR) – 4.8 births per woman in 2018 – which is strongly punctuated by income inequality (TFR is 2.5 times higher among women in the poorest quintile compared to the richest). These trends are also associated with gender inequalities and gender-based violence (GBV): 30 percent of Malagasy women declared having suffered from some kind of violence (psychological, physical, sexual or economic). The impacts of child marriage on education, health, poverty and violence have been well documented. Violence also has macroeconomic repercussions beyond the costs to individual women, including higher costs for healthcare and justice systems and lost productivity in local businesses. This points to the critical need for enhanced legal protections for women and girls, together with enhanced access to quality education and maternal and reproductive health services.

11. In response to the worrying state of its national human capital, the GoM, led by President Rajoelina (elected in December 2018) has launched a series of actions to improve investments in its people. The Government’s Emerging Madagascar Plan (*Plan Emergence Madagascar*, PEM) addresses long-standing challenges to accelerate economic, social and environmental revitalization. It seeks to do so by boosting activity in industry, tourism, and agriculture, by improving human capital, and by helping to preserve natural resources and increase resilience to climate change. Specific efforts include the

¹⁷ In 2010, pregnant women and children under five bore almost 40 percent of the total disease burden in the country (PER 2015); 2012 multiple indicator cluster survey (MICS) found most maternal and child health (MCH) interventions were reaching higher income quintiles.

¹⁸ World Bank. 2019. Madagascar Advisory Services and Analytics Completion Note. Harmonizing Social Protection: Evidence for Building Madagascar’s Social Safety Net (P167768); Building Nutrition Sensitive Safety Nets (P158839).

¹⁹ Women are the direct beneficiaries of 78 percent of cash transfers. Impact on economic activity is higher for female-headed households. Under the Emergency Drought Response program, food poverty was significantly reduced among beneficiaries (by five percentage points), with a stronger impact on female-headed households (by 10 percentage points).



Investment Case for Reproductive, Maternal, Newborn, Child and Adolescent Health and Nutrition (RMNCAH-N)²⁰, the recently approved Education Strategic Plan (*Plan Sectoriel de l'Education*, PSE) and its corresponding teacher policy framework, the approved National Social Protection Strategy, the recently adopted National Strategy on Child Marriage, and a National Strategy on Gender-based Violence (GBV). The World Bank is injecting approximately US\$400 million to support these programs on an operational level, but significant policy- level bottlenecks remain to unleash human capital investments. This complementary package of reforms will be implemented as part of Madagascar's commitment to the Human Capital Project, a global effort to accelerate more and better investments in people for greater equity and economic growth.

2. MACROECONOMIC POLICY FRAMEWORK

Figure 1: Real GDP growth

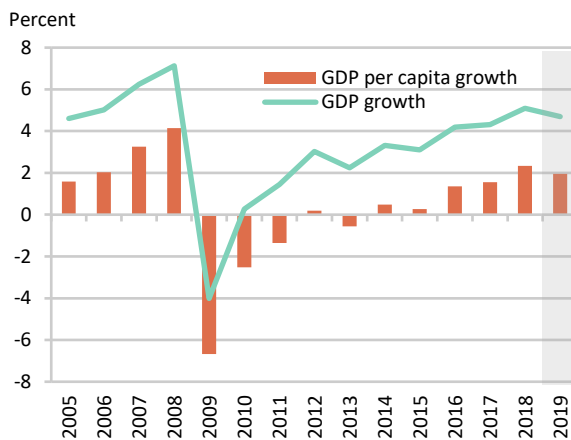
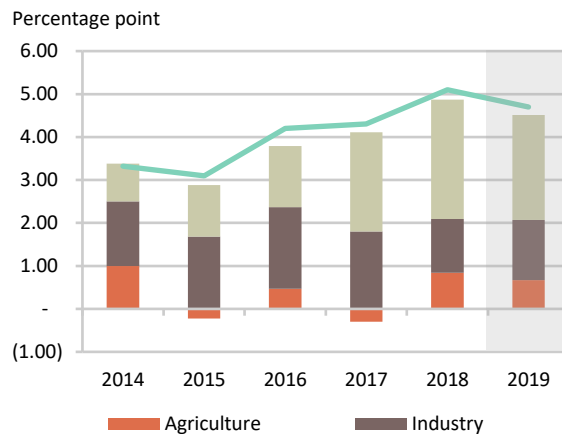


Figure 2: Sectoral contributions to growth²¹



Source: World Bank.

Notes: real GDP and GDP per capita calculated in 2010 U.S. dollar. 2018 numbers are estimates and 2019 are forecasts.

2.1. RECENT ECONOMIC DEVELOPMENTS

12. The Malagasy economy continues to perform well, but growth moderated in 2019. Following a prolonged period of political instability²² and economic stagnation, growth accelerated over the last five years to reach an estimated 5.1 percent in 2018,²³ its fastest pace in over a decade (Figure 1). The recovery since 2014 was supported by robust activity in export-oriented sectors such as textile and extractive industries, as well as in services such as transport, finance, and telecommunications (Figure 2). The return

²⁰ The Investment Case is a description of the changes that a country wants to see with regard to reproductive, maternal, newborn, child, and adolescent health (RMNCAH) and a prioritized set of investments required to achieve these results. It is not a comprehensive description of all of the activities underway on RMNCAH in the country. Instead, it presents a compelling case for how a limited number of priorities will put the country on the path to improve the health of women, children, and adolescents over the long term and thereby contribute to the achievement of the Sustainable Development Goals (SDG) (definition from the Global Financing Facility for Every Women Every Child).

²¹ The gap between the total sector contribution and GDP growth represents changes in net indirect taxes.

²² Between 2009 and 2013.

²³ Real GDP measured at 1984 prices (SCN 68 national accounts data).



to constitutional order was instrumental to this economic revival, as it contributed to restore investor confidence, re-open access to key export markets, reinstate flows of concessional financing, and encourage structural reforms. However, growth softened in the first half of 2019 amid weakening external demand and slow execution of public spending as the new government took office after the successful conclusion of the Presidential election in January 2019. Overall, growth continued apace in 2019, although moderating slightly to an estimated 4.7 percent. In per capita terms, this translates into a 2 percent rise in average income, still largely outpacing the rest of Sub-Saharan Africa in 2019 (Table 1).

13. Progress in poverty reduction is supported by improved labor market conditions but is hindered by low labor productivity in agriculture. Strong economic performance over the last five years has supported job creation, with formal employment²⁴ expanding on average by 6.8 percent per year over the period 2016-2018, more than twice the pace of growth of the economically active age population.²⁵ However, progress in alleviating extreme poverty is slowed down by low and declining labor productivity in agriculture, which employs an estimated 80 percent of the population.²⁶ This decline has been associated with the inability of other sectors to absorb a rapidly growing population, as well as low rural connectivity, limited access to inputs, and a lack of organized value chains in the main staple and cash crops. From 2012, the last year for which poverty data are available, to 2019, the percentage of the population living below the international poverty line of US\$1.90 (2011 PPP) per day has only slightly decreased, from 77.6 to 74.1 percent, and remains significantly higher than the regional average of 41.5 percent.²⁷

14. Consumer price inflation moderated in 2019. Consumer price inflation eased during 2018 amid diminishing food price inflation. The downward trend continued up to the third quarter of 2019, despite upward price adjustments of some staple goods such as edible oils since mid-2019. In contrast, rice price inflation continued to moderate in 2019, thanks to robust domestic production and favorable weather conditions. The downward revision of gas prices at the pump negotiated by the Government in June 2019, together with declining international oil prices earlier in the year, were reflected in energy inflation decelerating up to the third quarter of 2019. A flaring up of geopolitical tensions in the Middle East during the fourth quarter have made international oil prices more volatile but have not led to a sustained uptick. Overall, inflation is expected to moderate to 6.3 percent on average in 2019, down from 6.9 percent at the end of year 2018, which remains consistent with the central bank's price stability objective (Table 1).

15. Monetary policy remains on a steady course. In a context of decelerating inflation, the central bank has kept its main monetary policy rate unchanged at 9.5 percent since end-2017 and continued to manage intra-year fluctuation in banks' excess reserves through well-targeted liquidity interventions. Furthermore, credit growth has been stable, averaging about 14 percent year-on-year in the first half of 2019. Regulatory and institutional reforms accompanying the 2016 central bank act have helped enhance the independence and credibility of the central bank. However, the transmission of the interest-rate based monetary policy on credit conditions and activity continues to be limited by an underdeveloped interbank lending market

²⁴ As recorded by CNaPS, the main social security fund.

²⁵ Source: CNaPs 2019.

²⁶ As measured by value added per worker (source: WDI).

²⁷ Latest data available for the SSA region covers 2015. Data from World bank PovcalNet



and low levels of financial inclusion.

16. Madagascar’s banking sector exhibits strong financial fundamentals, although there are low levels of financial intermediation. All banks fulfill the minimum capital adequacy requirement, with a capital to risk-weighted assets ratio of 13 percent on aggregate in 2018, well above the required minimum of 8 percent. Non-performing loans remain low, at 8.5 percent of total credit to the economy, and below a regional average of 10.1 percent.²⁸ Subject to seasonal fluctuations, bank liquidity is ample in aggregate, with overall deposits exceeding loans. Banks are on average highly profitable, mostly due to high spreads between loan and deposit rates.²⁹ Private credit-to-GDP increased from 12.9 percent in 2016 to 13.4 percent in July 2019. These levels are well below the regional average of 24.4 percent and signal a limited financial intermediation role played by banks. The share of the population with access to a savings account in commercial banks and mobile money accounts remains low by regional standards but increased in recent years to reach 11 and 7 percent respectively in 2018. The low basis implies a significant potential to increase financial inclusion.

17. The current account was in surplus in 2018, but weakening export revenues led to a modest deficit at the start of 2019. In 2018, strong export receipts were supported in part by high vanilla prices and rising extraction and mining revenues. This, together with increased current transfers, contributed to a current account surplus amounting to 0.8 percent of GDP in 2018, despite rising oil prices and accelerating import demand. In the first half of 2019, the current account reverted to a deficit, as export revenues decelerated amid weakening global demand, while imports of equipment and intermediate goods remained sustained. The current deficit is expected to reach 0.8 percent of GDP in 2019, while net official transfers are estimated at 3.8 percent of GDP in 2019 and foreign direct investments at 3.2 percent of GDP (Tables 1 and 2).

18. Robust external sector accounts are reflected in rising international reserves. A healthy current account position and ongoing capital inflows have allowed the central bank to accumulate international reserves, reaching an equivalent of 4.6 months of imports in September 2019. The central bank continued to implement targeted interventions to smooth seasonal changes in demand and supply of foreign exchanges linked to production cycles of key cash crops. The nominal effective exchange rate depreciated at a moderate pace during 2018 and in the first half of 2019, while the real effective exchange rate remained broadly stable throughout the period. External sector accounts have benefited in recent years from record high vanilla prices and are therefore susceptible to sudden deterioration in case of an abrupt reversal in prices.

19. Budget deficits remain moderate and are largely externally-financed. The budget deficit widened marginally to 2.5 percent of GDP in 2018 (on commitment basis), while total public debt declined slightly to 45.7 percent of GDP. The deficit is expected to remain moderate and broadly unchanged in 2019, with capital expenditures and government revenues increasing at the same pace. The deficit is mainly externally financed, with external borrowing projected at 2.6 percent of GDP in 2019, compared to 1.9 percent in

²⁸ Data for Sub Saharan Africa for 2017.

²⁹ The high spread is partly explained by the transfer of credit risks to consumers, linked to challenges in the business environment.



2018. External financing has been largely on concessional terms, accounting for 95 percent of external public debt. On the domestic side, appetite for treasury bills continued to be determined by seasonal variations in bank liquidity but was positively affected by the smooth political transition after the presidential election end-2018 (Table 3). The total public debt-to-GDP ratio is estimated at 46 percent of GDP in 2019.³⁰ Government securities account for the largest share of total public debt, followed by the estimated debt of state-owned enterprises (SOEs) and in particular of the state-owned electric utility and water services company (*Jiro Sy Rano Malagasy*, JIRAMA), reflecting for the most part arrears to suppliers rather than contracted loans.

20. The tax-to-GDP ratio is on an upward trend, but revenue mobilization remains among the lowest in Sub-Saharan Africa. Total government revenues excluding grants increased to 12.1 percent of GDP in 2018, up from 10.1 percent in 2014.³¹ Tax collection has slightly exceeded the target set in the budget in first half of 2019, with overall revenues estimated to increase to 12.2 percent in 2019. Initiatives contributing to increasing tax revenues in recent years include the consolidation of taxpayer registration, the modernization of the Integrated Tax Administration System, the strengthening of audit function and control, the establishment of performance-based management at the Tax and Customs Departments, and improvement of revenue collection at the local level. Despite some improvement, the tax-to-GDP ratio is well below the average of 16 percent in Sub-Saharan Africa.³² Madagascar has a simple but somewhat regressive tax structure, with a flat 20 percent income tax rate and a 20 percent value-added tax (VAT) rate, which potentially make tax collection and compliance easier. Indirect and low-distortion taxes are the main sources of tax revenues in Madagascar, with VAT and excise taxes making up to 60 percent of total tax revenues. However, limited effectiveness and coordination of tax administrations, numerous exemptions and loopholes, as well as pervasive tax evasion and corruption are reducing revenue collection (Table 3).

21. The composition of government spending is improving gradually. Public expenditures (excluding interest payments; on commitment basis) reached 16.3 percent of GDP in 2018, with a gradual increase in relative share of public investment and social spending in recent years. The new government approved the revised 2019 budget in May to reflect changes in the government structure and new priorities. However, major policy directions have so far been preserved. For example, the transfer to the utilities state-owned enterprise, JIRAMA, is projected to continue decreasing from 0.8 percent of GDP in 2018 to 0.6 percent of GDP in 2019. In addition, the Government negotiated a new cost structure for fuel prices at the pump and is committed to reducing accumulated liabilities to petroleum companies. Spending on social sectors is projected to stabilize at 1 percent of GDP in 2019, similar to the execution rate in 2018.³³ Overall expenditures (excluding interest payments) are expected to rebound to 16.6 percent of GDP in 2019, reflecting a scaling up of public investments in the second half of the year (Table 3).

³⁰ Debt data valuation have been revised since July 2019 to comply with the definition used in the new Debt Sustainability Analysis framework. Overall public debt now includes central government debt, debt issued by provinces and localities (e.g., communes), guarantees to entities in the private sector and public sector (including SOEs), Central bank debt, and Non-guaranteed state-owned enterprise debt. Debt associated with the social security fund and any extrabudgetary funds are not included. Based on SCN 68 national account data.

³¹ Based on SCN 68 national accounts data.

³² Data for 2016 for SSA. Source: WDI.

³³ Social spending is defined using an administrative and programmatic classification.



2.2. MACROECONOMIC OUTLOOK

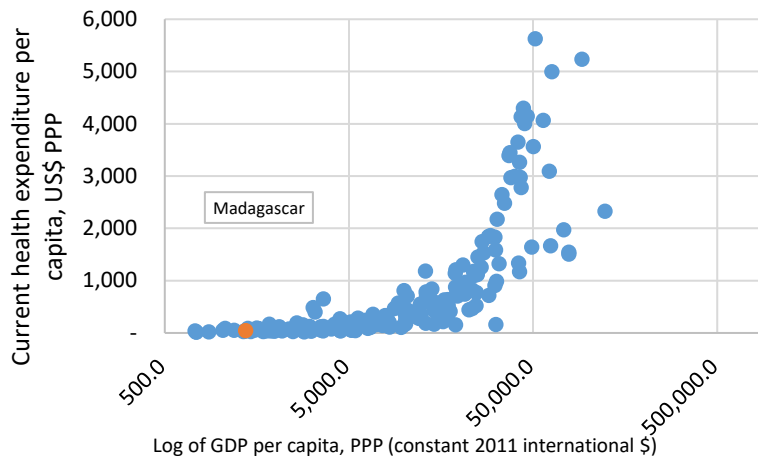
22. A positive short-term outlook is supported by ambitious public investment plans and a post-election rebound in confidence. Despite the dampening impact on exports of weakening global demand, growth is projected to increase to 5.3 percent in 2020, on expectations of a scaling up of public investment, including in road, health and education infrastructures. Private investment will also be boosted by a post-election rebound in confidence and incoming foreign direct investments. Rising capital spending should more than offset a slowdown in export growth as economic activity in China, Europe, and the United States decelerates. In 2021, growth is expected to increase slightly further to 5.4 percent, as the upturn in public and private capital spending continues. With per capita income growth remaining slightly above 2 percent in coming years, poverty rates are projected to continue declining, to reach 71.4 percent in 2021. While poverty rates continue to decline, the number of poor people is increasing further, with an estimated 20 million people living on less than US\$1.90 per day by 2021, partly due to rapid population growth. Over the medium term, the growth potential of Madagascar is robust but continues to be held back by inadequate infrastructures, slow progress in human capital development, a lack of competition in key sectors, poor governance, and limited efficiency of public spending. This is reflected in weak productivity growth, particularly in the agriculture sector. While this is expected to continue constraining activity in the base case scenario, accelerated reforms by the new government could result in better outcomes (Table 1).

23. A lack of human capital is a major constraint to growth and inclusiveness. Improving education and health outcomes is key to creating opportunities for more and better paying jobs to a rapidly growing population.³⁴ Although the elimination of public-school fees in the early 2000s contributed to a doubling of school completion rates, learning outcomes remain poor, as teachers are under-equipped and do not have appropriate qualifications. Improving health services, access to water, sanitation, and improved nutrition are also key to increase human capital. Currently, public expenditures on education and health in Madagascar are amongst the lowest in the world, leading to out-of-pocket expenditures (Figure 3). By improving absorptive capacity and strengthening financial management systems and efficiency of spending, there is a strong case to increase expenditures in critical human development sectors.

³⁴ See for example the *World Development Report 2019: The Changing Nature of Work* or Collin, M. and D. Weil. 2018. "The Effect of Increasing Human Capital Investment on Economic Growth and Poverty: A Simulation Exercise." Policy Research Working Paper; No. 8590. World Bank, Washington, DC.



Figure 3: Current health expenditures per capita, US\$ PPP



Source: World Health Organization and World Development Indicators (WDI).

24. Consumer price inflation is predicted to continue hovering around 6 percent over the period 2020-22. Stable inflation is predicated on favorable weather patterns keeping food price increases in check, as well as broad stability in oil prices, a modest pace of currency depreciation, and measured credit growth. Under baseline assumptions, policy interest rates are expected to remain around current levels, with the credible commitment of the central bank to price stability and an improved operational framework contributing positively to anchor inflation and exchange rate expectations. Central bank liquidity and foreign exchange interventions are expected to continue to smooth seasonal fluctuations in banks' excess reserves and foreign exchange needs.

25. The current account deficit is expected to increase, reflecting prospects of decelerating export revenues and scaled up investment. Softening external demand and moderating vanilla prices should result in weaker export revenues in 2020 and 2021. At the same time, rising public and private investments will continue to support strong import demand, which together with lower net current transfers, will contribute to a rising current account deficit. The latter is projected to reach 2.4 percent of GDP in 2020 and 3.6 percent of GDP in 2021. Growing external deficits, combined with an increasing share of non-concessional financing at higher interest rates should result in a gradual increase in public external debt, albeit from low levels.

26. Government deficits are on an upward trajectory. The central government budget deficit is expected to widen to 3.7 percent of GDP by 2021, up from 2.5 percent in 2018, driven by accelerated public investments, which are projected to increase from an estimated 6.1 percent of GDP in 2018 to 9.5 percent in 2021. This projected increase assumes an improved absorptive capacity and reduced implementation constraints. Increased public investments will more than offset the Government's planned reductions in transfers and subsidies to State-Owned Enterprises (from 2.6 percent of GDP in 2018 to 2.1 percent in 2021). The fall in transfers to JIRAMA assume that the utility's operational performance improves and plans to clean up its arrears and restructure its debt are effectively implemented, in line with the World Bank-funded JIRAMA Financial Recovery Plan. The Government's ability to finance priority spending is hampered by low domestic revenue mobilization. A projected increase of this ratio by 0.5 percentage point of GDP per year will be supported by already planned efficiency measures targeting



delinquent taxpayers, the digitalization of tax declaration, and improvements in tax administration. Key measures include the extension of performance contract coverage at the Tax General Directorate, the recent launch of online tax payment, enhanced risk-based control, and the strengthening of tax arrears recovery.

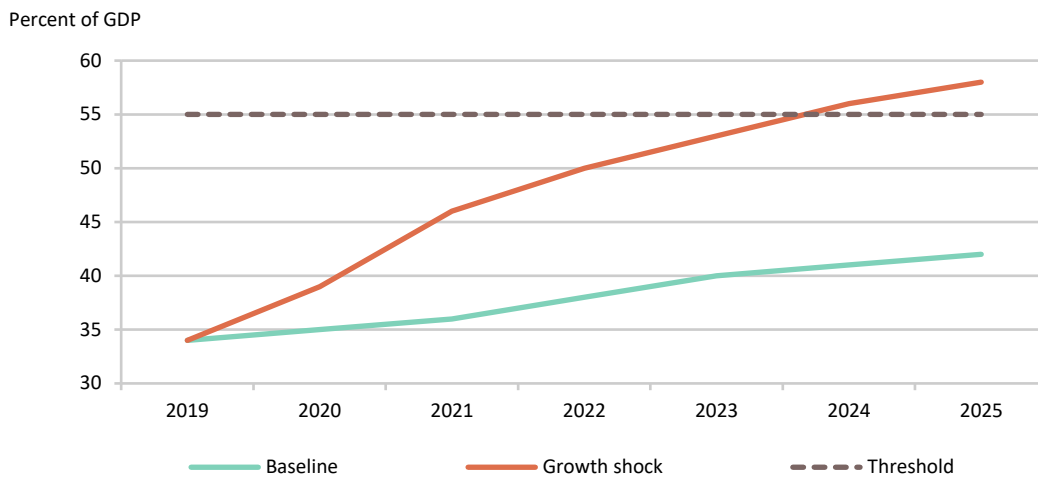
27. Accelerated reforms could lead to stronger-than-expected growth, but risks remain. A successful transition of power after the 2018 presidential election substantially reduced the prospects of political instability in the short term, while repeated political crises used to be a major factor behind the lack of sustained progress in income per capita and poverty alleviation. Moreover, while baseline projections assume gradual improvements in governance and reform implementation, faster delivery of well-targeted and confidence-building policies combined with a strong institutional commitment to macroeconomic stability could yield better than expected outcomes. However, important risks remain, including a sharper-than-expected slowdown in major trading partners, a sudden drop in vanilla prices from their current highs, reform setbacks or renewed political uncertainty. Climate change also poses an ongoing threat to economic sustainability with climate-related disasters estimated to cost on average 1 percent of GDP per year. The World Bank Disaster Risk Management development policy operation (DPO) (P167941) supports reforms to strengthen the Government's capacity to manage disaster and climate-related risks.

28. Risk of external debt distress is low, while that of overall debt distress is moderate. Despite prospects of rising current account deficits, a Debt Sustainability Analysis (DSA) undertaken in July 2019 led the risk of external debt distress to be downgraded to low from moderate in the June 2018 assessment. This reflected an upgrade of the debt carrying capacity of Madagascar thanks to progress recorded in the World Bank debt performance assessment, as well as ample foreign exchange reserves. The risk of public debt distress is assessed to be moderate, with public and publicly guaranteed debt breaching stress thresholds in scenarios implying substantial growth and terms-of-trade shocks (Figure 4). However, some fiscal risks warrant close monitoring, including those associated with rising contingent liabilities, including towards JIRAMA and Air Madagascar, and a potential proliferation of PPP projects when the legal and institutional framework to manage those risks still needs to be strengthened. The World Bank Fiscal Sustainability and Energy DPO (P166752) currently under implementation supports the Government's endeavor to manage fiscal risks associated with JIRAMA. Potential mismanagement of growing public investments and social spending, fiscal slippages linked to difficulties in implementing SOE and public wage bill reforms, or abrupt increases in non-concessional borrowing also represent significant fiscal risks.

29. The macroeconomic policy framework is considered adequate. The return to constitutional order in 2014 has seen important reforms being implemented to reverse the poor public expenditure management decisions implemented during the political crisis period. Notably, there has been a renewed focus on increasing fiscal space for priority expenditures, which include investment in infrastructure, human capital, decentralization, and climate mitigation. These reforms have been supported by development partners including through seven World Bank DPF operations and International Monetary Fund (IMF) facilities. The central bank has continued to implement reforms to contain inflation and maintain adequate levels of reserves, while advancing legislation to enhance governance arrangements. Expenditure and public debt levels are on a sustainable path. The economic recovery has continued with moderate inflation and still sound fiscal and external positions. The World Bank and the IMF are closely collaborating on the economic policy dialogue to ensure the reform momentum remains on track.



Figure 4: Present value of public debt-to-GDP ratio under stress scenario



Source: IMF

Note: Data based on the Debt Sustainability Analysis in the 5th review under the extended credit facility arrangement.

Table 1: Selected economic and financial indicators: 2015-2022

	2016	2017	2018	2019	2020	2021	2022
	Estimates			Projections			
Real sector							
GDP (billions of ariary)	31,634	35,729	40,032	44,242	49,300	54,713	60,181
Real GDP (annual % change)	4.2	4.3	5.1	4.7	5.3	5.4	5.4
Primary sector (contri. to real GDP growth, pp)	0.4	-0.3	0.8	0.6	0.7	0.7	0.7
Secondary sector (contri. to real GDP growth, pp)	0.9	1.4	1.1	1.3	1.5	1.5	1.5
Tertiary sector (contri. to real GDP growth, pp)	2.1	2.4	2.5	2.2	2.3	2.3	2.3
GDP per capita (current US\$)	409	459	467	477	503	528	554
Real GDP per capita (annual % change)	1.4	1.5	2.3	2.0	2.6	2.7	2.2
GDP deflator (annual % change)	6.2	8.3	6.6	5.6	5.8	5.3	5.2
Inflation, consumer prices (annual %, end of year)	7.0	10.6	6.9	6.3	6.0	5.8	5.0
Public Finance (%GDP)							
Total revenue and grants	14.8	14.8	14.6	15.0	15.4	15.5	15.4
o/w: Tax Revenues	11.0	11.5	11.8	12.2	12.5	12.7	13.2
Total spending (commitment basis)	16.1	17.2	17.1	17.5	18.4	19.1	19.9
o/w: Capital spending	5.2	5.5	6.1	6.6	8.3	9.5	9.8
Overall balance (commitment basis)	-1.3	-2.4	-2.5	-2.5	-3.0	-3.7	-4.5
Total public debt	47.1	46.0	45.7	45.9	47.4	49.7	51.6
o/w: External	29.6	29.5	30.5	31.7	33.7	36.1	38.3



	2016	2017	2018	2019	2020	2021	2022
			Estimates	Projections			
Monetary accounts (annual % change)							
Money Supply (M2)	21.3	19.3	13.7	17.1	13.3	14.7	15.0
Net Foreign Assets	37.4	23.1	13.1	10.9	15.2	16.3	13.8
Net Domestic Assets	10.8	14.2	14.2	20.6	8.6	10.9	13.5
of which: Credit to the Private Sector	8.2	18.4	16.4	17.8	11.5	11.0	14.2
External sector (%GDP)							
Exports of goods, f.o.b.	21.7	24.4	25.0	25.5	24.8	24.7	24.2
Imports of goods c.i.f	0.0	0.0	28.9	29.6	29.8	29.4	29.5
Current account balance	0.6	-0.5	0.8	-0.8	-2.4	-3.6	-3.7
Foreign Direct Investment	4.5	3.1	4.1	3.2	3.2	3.2	3.2
Foreign Reserves (months of imports)	3.9	4.0	4.3
Terms of Trade (percent change)	35.7	2.4	-1.2	-0.8	-0.4	-0.4	0.0
Exchange Rate LCU/US\$ (average)	3,176.5	3,116.1	3,333.6

Source: Malagasy authorities, World Bank staff (October 2019).

Table 2: Balance of Payments financing requirements and sources (% GDP)

	2016	2017	2018	2019	2020	2021	2022
	act.		est.	proj.			
Total financing requirements	9.1	8.4	8.7	8.1	8.7	9.4	9.6
Current account deficit	-0.6	0.5	0.8	-0.8	-2.4	-3.6	-3.7
Net repayment of private sector debt	2.1	1.2	1.5	1.8	0.8	0.7	0.4
Repayment of government debt	0.7	0.7	0.6	0.5	0.6	0.6	0.7
Gross reserves accumulation (+= increase)	3.2	3.1	1.6	1.2	1.0	1.3	1.2
IMF repayments	0.1	0.1	0.1	0.0	0.1	0.1	0.2
Other (inc. unrepatriated export revenues)	3.5	2.9	4.1	5.3	8.6	10.3	10.9
Available financing	9.1	8.4	8.7	8.1	8.7	9.4	9.6
Foreign direct and portfolio investment	4.5	3.1	4.1	3.2	3.2	3.2	3.2
Budgetary support loans	0.2	0.7	0.4	0.0	0.4	0.0	0.0
Project support	4.0	3.5	3.8	3.8	5.2	6.3	6.4
IMF: RCF and ECF arrangement	0.4	1.1	0.4	1.0	0.0	0.0	0.0

Source: Malagasy authorities, World Bank staff (October 2019)



Table 3: Fiscal Operations of the Central Government (% GDP)³⁵

	2016	2017	2018	2019	2020	2021	2022
			Estimates		Projections		
Total revenues and grants	14.8	14.8	14.6	15.0	15.4	15.5	15.4
Tax revenues	11.0	11.5	11.8	12.2	12.5	12.7	13.2
Non-tax revenues	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Grants	3.5	2.9	2.5	2.7	2.7	2.5	2.0
Total expenditure	16.1	17.2	17.1	17.5	18.4	19.1	19.9
o/w: social priority spending	0.8	1.0	1.0	1.0	1.5	1.7	1.8
Current expenditure o/w	10.9	11.7	11.0	10.9	10.1	9.6	10.1
Wages	5.7	5.8	5.8	5.8	5.7	5.6	5.6
Goods and Services	0.6	0.8	0.9	1.0	1.1	1.2	1.3
Transfers and Subsidies	3.1	4.1	2.6	2.5	2.2	2.1	2.0
o/w: Transfers to JIRAMA	0.9	1.2	0.8	0.6	0.2	0.1	0.0
Interest	0.9	0.8	0.9	0.9	0.9	0.9	0.9
Capital expenditures	5.2	5.5	6.1	6.6	8.3	9.5	9.8
Domestically financed	1.2	2.0	2.3	2.8	3.1	3.3	3.4
Externally financed	4.0	3.5	3.8	3.8	5.2	6.3	6.4
Domestic Primary balance	0.1	-1.0	-0.3	-0.4	0.4	0.9	0.8
Overall balance (commit. Basis)	-1.3	-2.4	-2.5	-2.5	-3.0	-3.7	-4.5
Arrears variation and float (+= accumulation)	-0.7	0.1	-0.1	-0.6	-0.1	-0.1	-0.1
Overall balance (cash basis)	-2.0	-2.3	-2.6	-3.1	-3.0	-3.8	-4.6
Central government financing	2.0	2.3	2.6	3.1	3.0	3.8	4.6
External (net)	0.7	1.4	1.9	2.6	2.6	3.0	3.5
Domestic (net)	1.4	0.9	0.7	0.5	0.5	0.8	1.1

Source: Malagasy authorities, World Bank staff (October 2019)

2.3. IMF RELATIONS

30. Madagascar is under a three-year Extended Credit Facility agreement with the IMF, with the latest review of the program completed on January 30, 2020. In July 2016, the IMF Board approved a three-year Extended Credit Facility (ECF) agreement for Madagascar for an amount of SDR 220 million (equivalent to about US\$295 million), increased to SDR 250.5 million in June 2017 in the context of the

³⁵ Current expenditures do not include *Autres Operations Net du Trésor (Other Treasury Operations)* which refer to: (i) advance payments made by the state to entities with budget autonomy, such as public establishments; (ii) debt repayments; (iii) dues related to Madagascar's participation in international organizations; and (iv) payments to commercial accounts. These treasury operations will be regularized as 2018 actuals are finalized.



first review. This approval followed satisfactory progress under two rapid credit facility programs in 2014 and 2016 respectively and a six-month IMF Staff Monitored Program between September 2015 and end-March 2016. The arrangement under the ECF supports the Government's program to reinforce macroeconomic stability and promote sustainable and inclusive growth. The program focuses on (i) boosting prospects for inclusive growth through scaling-up of investment and improving access to education, health care, and social protection; (ii) creating fiscal space through improved revenue generation and spending prioritization; (iii) reinforcing economic governance by strengthening public financial management and intensifying anti-corruption measures; and (iv) strengthening macroeconomic stability by bolstering central bank operations and financial supervision. The IMF Executive Board concluded the sixth review of the program in January 2020. Performance remained on track under the six successive reviews. Main identified challenges during the sixth review were related to enforcement of the new anti-corruption legal framework, vulnerability to exogenous shocks, and improving the sustainability of the civil servant pension fund. The World Bank maintains a close working relationship with the IMF, with regular collaboration across policy issues between the two institutions.

3. GOVERNMENT PROGRAM

31. To boost Madagascar's long-term productivity, President Rajoelina's Government has outlined its vision through the PEM 2019-2023. The initiative consists of three strategic priorities to: (i) strengthen Madagascar's social foundations; (ii) instill a bedrock of good governance; and (iii) promote a strategic economy for accelerated growth. With regards to social foundations, the Government seeks to improve the efficiency and effectiveness of its investments in health and education to improve human capital outcomes. This requires a focus on the main drivers to those outcomes, including the quality of the human resources entrusted to deliver services, and the efficiency of the sectors' financial resources (including more transparent execution). These latter items fall under the PEM's good governance agenda.

32. First, a healthier Malagasy workforce will create the foundation for enhanced labor productivity. Madagascar has a number of sectoral plans outlining pathways to boost labor productivity. First, with the overarching National Health Development Plan (*Plan National de Développement de Santé*, PNDS) 2015-2019 concluding, the new Government is finalizing its next plan to be adopted in March 2020, in which the Investment Case for RMNCAH-N will feature prominently. Importantly, in the meantime the Third National Action Plan for Nutrition 2017-2021 continues to be implemented, tackling the main bottlenecks to reduce stunting from 47 percent to 38 percent by the end of 2021. Reducing mortality rates (for infants and children) and stunting are first-order priorities, upon which the rest of the human capital investments depend.

33. Second, improved education outcomes will drive productivity. The Government recently launched its five-year Education Sectoral Program (*Program Sectoriel d'Éducation*, PSE) to improve education outcomes. The strategy has been endorsed by development partners and civil society alike. As part of the PSE, the National Teacher Policy (*Politique Enseignante*) seeks to comprehensively reform how the teaching profession is managed. In the short-run, these policy documents call for the introduction of teacher standards, and the need for quality control measures for recruiting teachers into classrooms. In the long-run, the Government intends to reform broader aspects of the teaching career including probation, promotion, training, and evaluation. In time, these changes will improve education services offered to Malagasy children.



34. Third, greater access to SSNs can help households invest in nutrition, education and health outcomes. The participation rate of the poorest in making use of available health and education services is low. Madagascar has the fifth largest number of out-of-school children worldwide. Even when enrolled, children often do not attend. Globally and in Madagascar, SSNs have improved school enrollment and attendance, access to health and nutrition services and improved cognitive, health and nutrition outcomes among children.³⁶ The National Social Protection Strategy (*Strategie Nationale pour la Protection Sociale*) seeks to expand coverage of three priority SSN programs to reach 15 percent of the extreme poor by 2025:

- The Human Development Cash Transfers (*Transfert Monetaire pour le Developpement Humain, TMDH*) offers monthly cash transfers to mothers, on the condition that children attend school. The program has piloted the inclusion of accompanying measures such as parenting education and early stimulation for young children delivered by Mother Leaders, who are community figures trained for this role.
- The Productive Cash for Work (*Argent Contre Travail Productif, ACTP*) provides jobs during the lean season to help build community assets including reforestation, watershed management, terracing and agricultural production. Employment is coupled with training to support households' agricultural productivity, livestock management, small business development and financial management. Mobile creches are being introduced to public works sites to improve women's access to public works jobs and to support investments in children's development.
- The Emergency Drought Response Program (*FIAVOTA, "Rescousse"* in French) is a nutrition focused emergency response cash transfer program for households affected by the El Niño drought in the South of Madagascar. The program offers monthly cash transfers to drought affected households with young children, coupled with services provided through the National Nutrition Office (*Office National de Nutrition, ONN*). The program is being transformed into a permanent, resilience-focused cash transfer program modeled on the TMDH.

35. Fourth, good governance and transparency are the hallmarks of the Government's agenda, to strengthen Public Financial Management (PFM) and decentralization. One of the priorities of the PEM is the emphasis placed on fighting corruption. This is a continuation of recent reforms in this area, including the anti-corruption units established at decentralized levels, the strengthening of the anti-corruption watchdog Independent Anti-corruption Bureau (*Bureau Indépendent Anti-Corruption, BIANCO*), and the creation of the High Court of Justice. These have led to some high-profile cases coming to light, including in school construction and health procurement. Most recently, the Ministry of Economy and Finance (MEF) has publicly committed to achieving a score on the Transparency Index of 80 (from 34 in 2017). On the PFM side, the GoM has conducted commendable reforms including a set of decrees mandating the publication of transfers to communes, leading to better fiscal planning. In addition, for more efficiency and greater accountability, transfers to local governments have been conditioned on participatory budgeting, which led to greater prioritization of social projects (health and education). Local structures put in place by recent regulations work closely with management committees such as Health Committees (*Comité Santé, COSAN*) and school management committees (*Farimbon'Ezaka ho Fahombiazan'ny Fanabeazana eny Ifotony, FEFFI*). Most recently, these reforms have been accompanied by the appointment, in each commune, of public accountants reporting to the treasury. Regarding access to information on public

³⁶ Bastagli F. et.al. (2016). Cash transfers: what does the evidence say? A rigorous review of program impact and the role of design and implementation features. ODI. Access: <https://www.odi.org/publications/10505-cash-transfers-what-does-evidence-say-rigorous-review-impacts-and-role-design-and-implementation>.



finances, the Government has made efforts to improve transparency. Since 2017, citizen budget reports providing simplified information on Finance Laws and budget execution are produced and disseminated in three languages, including in Malagasy. As requested by law, the Government participated in all mandatory parliamentary exchanges such as the presentation of the General State Policy implementation and discussions on the budget. Civil Society Organizations have taken on an increasingly active role, conducting periodic public debates on the budget, and producing simple analyses on budget expenditures. In 2017, an assessment of Madagascar's budget policy resulted in an action plan to address the main identified gaps, highlighted further below.

36. Finally, the PEM calls for a greater focus on women's empowerment. The Government has taken several actions to address GBV and early marriage such as the new Marriage Law and the National Strategy on GBV. These initiatives are in line with the commitments made by the Government at the international level. Madagascar has ratified international conventions promoting equal opportunities for men and women such as the Convention on the Rights of the Child (CRC) and the Convention on the Elimination of all forms of Discrimination Against Women (CEDAW). In 2015, Madagascar co-sponsored a resolution at the Human Rights Council calling for an end to child, early and forced marriage. Domestically, the issue of GBV has been brought to the forefront through the advocacy efforts of the country's First Lady and GBV ambassador.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

37. Aligned to the Government Program, this DPF series seeks to introduce several policy levers that will help unblock investments in the country's human capital. The main bottleneck currently impeding Malagasies from achieving their full potential is the extremely low quantity and quality of services they receive across the social sectors. The main drivers of low quality are poorly performing, underfinanced human resources delivering services (teachers and healthcare workers), and system-wide PFM inefficiencies in the sectors (particularly for budget execution). Another contributing factor lies in gender inequality and the failure to protect the basic rights of women and children, which reduces women's economic empowerment and prevents the country from reaching its full potential. The Program Development Objective is therefore to support the Government of Madagascar's investment in human capital, through improving human resources in health and education, availability and predictability of financial resources in the social sectors, and legal protections for women and children.

38. The policy levers are grouped around three pillars: (i) better qualified, distributed, and performing human resources in education and health sectors; (ii) more transparent and predictable investments in human capital; and (iii) stronger legal frameworks for the protection of women and children. These policy areas are mutually reinforcing. For example, getting more financial resources to health centers will boost working conditions, helping the reforms that seek to deploy health care workers to those centers. Similarly, enhancing the financial sustainability of SSNs under Pillar 2 will encourage attendance at health centers and schools, whose services will be strengthened through Pillar 1. The implementation of the gender equality and child protection policies will improve conditions for both girls and boys to be safe from GBV and reduce early marriage and pregnancy. These policy levers will also enhance climate resilience, through



more effective climate-responsive safety nets and health care providers, and schools that contribute to improved environmental stewardship.

39. Pillar one seeks to address bottlenecks related to human resources in health and education. First, it aims to introduce standards for the teaching profession to raise the overall qualification level of educators in the country. Relatedly, the operation supports the development of the GoM's National Teaching Career, to foster a profession that is attractive, challenging, and rewarding. The operation also supports the insertion of quality control measures in the recruitment of community teachers. In the health sector, the operation will support strengthening regulation and quality control mechanisms of pre-service training of health workers. Finally, this pillar supports better management of human resources in health, education, and throughout the public service. These reforms, involving the Ministries of Finance, Public Service, and the Prime Minister's Office, will create a single window of entry into the public service, while streamlining a system to significantly reduce wastage and improve distribution of personnel where they are most needed.

40. Pillar two will seek to make new and existing resources in the social sectors more predictable and transparent. First, it supports the expansion of the priority national SSN programs under the National Social Protection Strategy. These programs are targeted to the poorest and most vulnerable households where human capital deficits are concentrated. By providing income support, the cash transfers enable investments to strengthen human capital, by increasing utilization of education and health services, and by delivering behaviorally focused accompanying measures including parental education, family planning and early stimulation for children. Second, by reforming the flow of funds to front-line health providers, the operation will result in a greater share of existing financing reaching their intended destinations – health centers – a necessary condition to improving the quality of service delivery. Given that these actions imply ever greater investments by the Government, this pillar also supports an effort to increase fiscal revenues. Moreover, the operation will lead to better execution and accountability of the sectoral budgets, by rendering spending more transparent. Through greater transparency of budget execution at the treasury, the ministries of health and education will be able to track transfers and payments to their suppliers in real time, zeroing in on delays, and providing the necessary information to hold providers accountable for services rendered. Finally, accompanying reforms in efficiency, this pillar also supports an effort to increase fiscal revenues and social spending to levels required to meet improved human capital targets in Madagascar.

41. Pillar three will strengthen the legal frameworks for better protecting children and advancing gender equality. Actions will introduce legislation that better protects women against GBV, sending strong signals throughout society about changing social norms. For child protection, actions will support the implementation of the strategy to abolish child marriage, with indicative triggers leading to the adoption of the National Child Protection Policy, while helping to protect children and adolescents from early marriage, pregnancy, and sexual tourism. This includes actions at the community and school levels that strive to make schools safer for girls and boys to learn and thrive.

42. This operation is a natural progression of the World Bank's budget support operations and has been informed by numerous lessons from past DPOs in Madagascar. The previous budget support operations have worked to improve fiscal management and allocative efficiency of the budget, through a nascent decentralization and to expand the fiscal space to finance priority spending. This operation builds



on this momentum, incorporating the following lessons that have been learned:

- **The political economy environment presents risks.** To mitigate these risks, this operation will work with high-level stakeholders across the Government to help build cohesion to implement reforms. This reform program is built around a multi-agent leadership approach, working closely with policy influencers in and outside of the Government across education, health, decentralization, social protection, child protection, and women’s empowerment.
- **Criticality and selectivity should drive policy reforms supported.** Given the limited institutional capacity for carrying out reforms, priorities must be focused. Hence this program’s relatively narrow scope enables greater depth on a few instrumental areas surrounding improving teachers, health professionals, spending, transparency, and protection of women and children.
- **The policy agenda should be integrated with the investment program, as well as the analytical/advisory work.** This operation is highly complementary to ongoing investment operations that support decentralization, improve nutrition services, enhance education, and strengthen the SSNs (see Table 5. CPF Objective, Policy Actions, and Investments/Interventions). This has underpinned the understanding of development constraints and built up the relationships with government counterparts. Specifically, the program builds on a robust analytical program that has precisely estimated the impact of, for example, SSNs and nutrition services on human capital accumulation (see Table 4. Analytical Underpinnings).
- **There is strong client demand for partners to work together to support a common set of reforms.** This increases the overall impact of the reform. This operation has dovetailed with the European Union (EU) support to Madagascar, harmonizing areas of support, and ensuring coherence at each stage. This includes the EU’s establishment of a complementary budget support project for 2020 and 2021 for EUR 20 million (EUR 10 million each year), which will disburse against an aligned results framework.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

43. The policy areas across this DPF series are mutually reinforcing, resulting in a coherent reform program for the long-term. For example, policy actions that will better control entrants into the teaching and health care careers will result in better staffed schools and clinics. Reforms for more transparent human resources management will shine a light on the current unequal distribution of staffing across Madagascar. Relatedly, changes to link salaries to positions rather than to individuals will facilitate the redistribution of current staff, as well as enable the necessary incentives for staffing hard-to-reach areas. Budget transparency actions will reinforce these reforms, allowing sectoral ministries to conduct strategic analyses of the allocative efficiency of the current (and future) distribution of human and other resources. Transparency in public expenditures as well as in human resource deployments are likely to result in considerable savings to the wage bill, allowing for greater reinvestment in salaries of health personnel and teachers (by extending subsidies to more community teachers, or by converting more into contract teachers). These actions will also give a greater sense of the gender gaps in staffing and wages in the social sectors, informing efforts to close them. Similarly, greater efficacy of fiscal expenditures can free up revenues for increased social spending, made more efficient and predictable through key PFM reforms. Finally, expanding and increasing SSNs for vulnerable families, and strengthening legal frameworks to protect women and girls, will help reduce inequalities and advance human capital formation. Together, these reforms will create a policy foundation to ensure more children can enjoy full health and education,

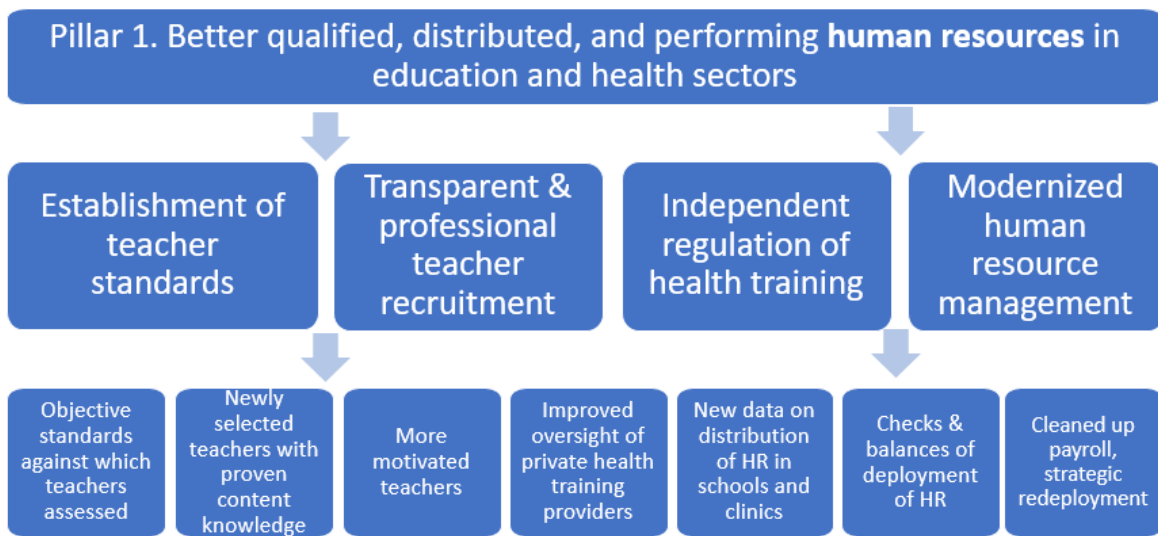


to reach their potential as contributors to more sustainable and inclusive growth in Madagascar. The following section provides a summary of the theory of change of the reform package supported through this operation (summarized in the matrix in Annex 1).

PILLAR 1: BETTER QUALIFIED, DISTRIBUTED, AND PERFORMING HUMAN RESOURCES IN EDUCATION AND HEALTH SECTORS

44. Results chain (Figure 5). Enforcing the consolidated application of a single HRM system (Prior Action 4) will reduce wastage, and improve teacher and health worker distribution to meet service delivery needs. The introduction of quality standards, and the development of a National Teaching Career to attract and retain qualified teachers (Prior Actions 1 and 2), will boost the quality of teaching and learning. Similarly, introducing and enforcing standards for training institutes of health professionals (Prior Action 3), particularly for delivering MCH services, will infuse more qualified clinicians into health facilities to improve quality of care. Together these reforms will help close identified gaps, for better health and learning outcomes and human capital gains.

Figure 5: Theory of Change, Pillar 1



Prior Action #1: To improve the quality of the Malagasy teaching workforce, the MENETP, Ministry of Labor, Employment, Civil Service and Social Laws (*Ministère du Travail de l'Emploi, de la Fonction Publique et des Lois Sociales, MTEFPLS*) and MEF have established the national teaching career and teacher skills requirements.

Legal Evidence: *Arrêté interministériel n° 26 479/2019/MEF/MTEFPLS/MENETP Fixant le référentiel métier et compétences de l'enseignant de l'éducation nationale à Madagascar*, dated 21 November 2019 and published in the *Journal Officiel* of the Recipient on 17 February 2020.

45. Policy reform. Pillar one consists of several prior actions in the education sector, starting with standards for teachers. The main driver of deteriorating education performance for Malagasies has been a steady erosion in the quality of the teaching workforce. The deterioration of the salaries and status of



teachers over the years, along with the Government's inability to finance teachers for thousands of communities across the country, has resulted in an unattractive career, with little to no regulation. Communities have been left to themselves to recruit and to finance teachers with whatever local resources they are able to mobilize. To turn this around, the GoM seeks to re-dynamize the teaching profession, beginning with the adoption of a clear standard for what teachers are expected to know, how they should behave, and what learning they need to impart to children (including with regards to citizenship)³⁷. This work is being undertaken by an inter-ministerial committee consisting of representatives of the MEF, MTEFPLS, and MENETP.

46. In time, actions in this policy area would evolve toward a comprehensive reform of the teaching career, **through the approval of a National Teacher Career by Decree of the Council of Ministers, the trigger for this policy area**. Having established the benchmark to which the country aspires for their teachers, the comprehensive reform of the National Teaching Career will lay out how teachers at each level of their career are to be recruited, trained, evaluated, promoted, and incentivized. Working with MTEFPLS, the reform will specify the criteria that need to be in place for recruiting new teachers and will establish equivalencies with the public service. The reform will also lay out the support that teachers can expect from MENETP to achieve those standards, including training offered, performance or hardship incentives, and remuneration. Finally, this work will be carried out in conjunction with the Parliamentary Commission for Education and will include regional consultations throughout Madagascar. The deployment plans for qualified teachers through the new standards and career will also be supported through the World Bank Basic Education Support Project (P160442).

47. Results. In the short-term, this reform marks the introduction of classifications for positions for teachers, at least 35 percent of whom should be reflected within the Government's single HRM system (AUGURE) by 2021. The main results in this area over time will be to change the stock of teachers from a largely untrained and unregulated volunteer force to one of valued professionals that have received support and qualification from the state. In the medium-term, this would also include increasing average wages for teachers, and the allocation of the wage bill such that the state is able to remunerate most of its teachers, phasing out the current volunteer workforce.

Prior Action #2: To expand the application of quality control measures for the recruitment of community teachers, MENETP has expanded the piloting of new procedures and qualifications for the hiring of non-civil service teachers (*Enseignants non fonctionnaires*) in primary schools by Parents' Associations (*Fikambanan'ny Ray Aman-drenin'ny Mpianatra*, FRAM) to eight additional Ministry of Education School Districts (*Circonscription Scolaire*, CISCO) (i.e., Ambalavao; Manakara; Toliara II; Brickaville, Antsiranana II; Befandriana nord; Ambohidratrimo; and Antanifotsy) starting from the 2019-2020 school year.

Legal Evidence: *Note n°8056 Mise en oeuvre expérimentale d'une politique de rationalisation de l'embauche des Enseignants non Fonctionnaires au niveau de certaines circonscriptions scolaires*, dated 7 November 2019, issued to the Secretary General, the Director of cabinet, all Central Directors, the relevant Regional Directors of National Education and Technical Teaching, the Heads of the relevant CISCOs (each for execution and monitoring) and FRAM (for informational purposes).

³⁷ Citizenship principles include elements of being good environmental stewards.



48. Policy reform. The insertion of quality control measures for the recruitment of community teachers is an urgent policy reform. In 2018, MENETP introduced some quality control measures in eight districts for community-recruited teachers, with the view of instilling a minimum competency requirement to regulate quality. These measures have two parts: (i) the definition of criteria sought for community teachers, including the stipulated preference for candidates with a secondary school certificate, and (ii) the introduction of a test, to measure the content knowledge of candidates. For the academic year 2019-2020, MENETP is expanding these quality control measures to an additional eight districts, for a total of 16 districts. This rollout is being accompanied by Randomized Control Trials that estimate the precise impact of these reforms in the learning levels of students. As the evidence becomes available, and taking into consideration cost implications, MENETP will continue to define the path for the national scale-up of this crucial reform to determine the future quality of educators.

49. The indicative trigger in this area will be to introduce further recruitment reforms to improve the quality of teachers. For the approximately 5,000 primary school teachers to be promoted from community teachers to contract teachers in 2019, the Ministry will be introducing a transparent selection algorithm that balances certification, years of experience, and equity. The adoption of those equity and qualifications-based dimensions to awarding contracts through ministerial decree will be the indicative trigger. Over the long-term, the Ministry continues to develop performance evaluation tools that it intends to incorporate into the selection process in future years, to generate more objective measures on which teacher performance can be recognized and rewarded.

50. Results. The main results will be the recruitment of over 10,000 teachers according to transparent procedures that include knowledge content criteria. In the short run, the reform aims to increase the number and quality of candidates that apply for and fill open vacancies. The reforms will also result in the national scale-up of the recruitment policies announcing transparent criteria and quality control filters to recruit or promote community teachers as of 2020.

Prior Action #3: To improve quality control of institutions providing training for workers in the health sector, the Ministry of Public Health has created a health training institute inspection and quality control commission (*Commission d'Inspection et de Contrôle des Normes des Etablissements de Formation en Santé*) and established its organization and functions.

Legal Evidence: *Arrêté N° 4570/2020-MSANP portant création, organisation et fonctionnement d'une Commission d'Inspection et de Contrôle des Normes des Etablissements de Formation en Santé*, dated 19 February 2020 and published in the *Journal Officiel* of the Recipient on 19 February 2020.

51. Policy reform. The lack of quality control of private educational institutions, which train a significant proportion of the nurses, doctors, midwives, and other para-professionals in the health workforce, contributes to the low quality of services provided. Although there are existing entities where the quality control function is currently notionally entrusted, these bodies are disjointed, under-funded, and ignored. The reform introduces a strong regulation of quality of institutions providing training for health workers. This Inspection and Quality Control Commission on Health Training will be composed of representatives from the Ministry of Public Health as well as representatives from the professional representative associations (doctors, midwives). It would be empowered to regulate those institutions seeking to train health professionals. This includes stronger accreditation criteria for training institutions.



52. The indicative trigger for this action is the presentation and validation of the action plan from the independent audit on health training institutes by Government Council. It is essential that reforms be made to these health training institutions so that those who enter the health system are of high quality with two levels of filters: pre-selection based on profile relevance, and subsequent merit-based selection based on a competitive process.

53. Results. Strengthening and enforcing regulations for accreditation of private health training institutions will improve the quality of providers entering the health workforce. Follow-on regulatory measures in this area would include the establishment of independent inspections/audits of the private health care training institutions to confirm that they meet quality standards. As a result, it is expected that at least 80 percent of paramedical graduates from private health training institutions will pass public service entrance exams, contributing to greater quality control of health workers entering the system.

Prior Action #4: To allow for systematic counting of all public education and health professionals and rationalization of the distribution of human resources throughout the civil service, the Prime Minister, Head of Government has obligated all institutions and ministries, decentralized territorial collectivities (*Collectivités Territoriales Décentralisées*), and public institutions and bodies (*Etablissements et Organismes publics*) to use AUGURE and the nomenclature of positions validated by the ministry in charge of civil service for the management of their personnel.

Legal Evidence: *Décret N°2019-1 446 Portant institutionnalisation et mise en œuvre de l'Application Unique pour la gestion Uniforme des Ressources humaines de l'Etat dénommée «AUGURE»*, dated 7 August 2019 and published in the *Journal Officiel* of the Recipient on 17 February 2020.

54. Policy reform. A systematic counting of all education and health professionals working throughout the system is urgent, in order to confirm official numbers in AUGURE, and to eventually rationalize the distribution of human resources throughout the civil service. The fourth prior action is to mandate the exclusive use of AUGURE by all Government ministries through a decree by the Council of Ministers. This includes ensuring that AUGURE is the single point of entry for incorporation of civil servants onto the public payroll. Revisions to AUGURE will include updating the functionality of the system to extend beyond the current scope, now limited to civil servants (*fonctionnaires*) and certain contracted personnel, and geographically limited to a district-level disaggregation, such that a wider human resource population can be managed.

55. To ensure that AUGURE has updated information, a census of all education and health personnel will be carried out (the indicative trigger for this prior action). This will serve as the basis for the reform that will link civil servant status to the position (i.e. a teaching position in a specific school), rather than to the person, which is the indicative trigger for this policy reform. To verify that the decree establishing AUGURE as the Government's single human resources management system has been faithfully implemented and that the procedures governing its use are being followed, including its interface with the payroll, an audit has been completed. The audit report by the Court of Accounts will be published within six months of completion.

56. Results. Enforcing the consolidated application of a core single public HRM system will enhance oversight and simplify processes of HRM, which in turn should reduce wastage, improve transparency, and improve both allocative as well as operational efficiency to improve service delivery. Sectoral adaptations

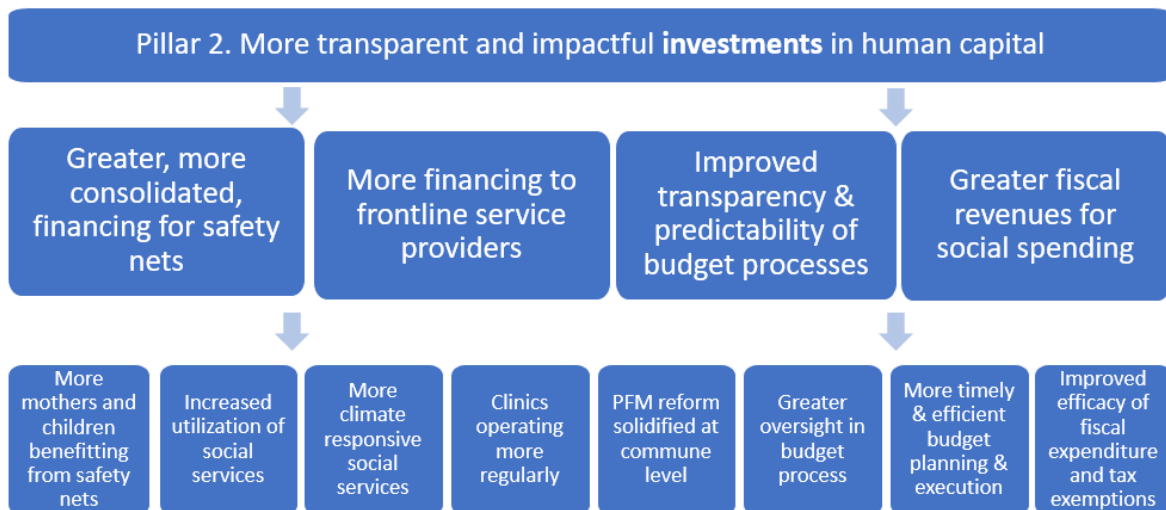


(extensions) to the core AUGURE system are envisaged to cater to the particular information needs of individual sectors. Mandating the use of the existing, purpose-made database will further contribute to increasing the transparency of HRM, including better skills allocation and better matching of posts to qualified staff. To ensure both the updating and effective utilization of the AUGURE database, the results indicator will track the percentage of schools and health centers that meet sectoral human resources standards, according to AUGURE (e.g. number of teachers/schools, number of health staff/health centers). This data will also allow for gender-disaggregated analysis to assess gender gaps in the public service. The indicative trigger of linking positions to post will be essential for overcoming the inequitable distribution of human resources in social sectors. Over time, the use of AUGURE can also contribute to improving the tracking of tax payments, new pension beneficiaries and budget transfers to the public pension funds. The could help improve tax efficiency and imply significant cost savings.

PILLAR 2: MORE TRANSPARENT AND PREDICTABLE INVESTMENTS IN HUMAN CAPITAL

57. Results chain (Figure 6). Increased, more predictable financing for the SSN should expand coverage of three key social protection programs that have rendered gains in health, nutrition, and education outcomes for the most vulnerable, particularly women and children (Prior Action 5). Second, reforming mechanisms for communes and districts to more effectively channel resources to health centers and schools can improve the availability of critical inputs required to deliver services (Prior Action 6). In addition to more effective channeling of resources, overall financing levels also need to increase, and as such this pillar also works on increasing fiscal revenues, through revising policies around tax exemptions (Prior Action 8). Finally, the interpretable publication of expenditures can foster oversight by the public for greater accountability of social sector spending, in addition to more effective management by line ministries to reduce delays and arrears with suppliers (Prior Action 7). Through these reforms, social sector financing can become more efficient in impacting intended beneficiaries, for greater human capital gains.

Figure 6: Theory of Change, Pillar 2





Prior Action #5: To support the expansion of the three priority SSN programs in Madagascar (i.e., TMDH, ACTP and FIAVOTA) (the “Priority SSN Programs”):

Legal Evidence:

- (a) the MEF and the *Fond d’Intervention pour le Développement (FID)* have entered into a *Protocole d’Accord* dated 24 January 2020 pursuant to which, among other things, the MEF has agreed (i) to make available to the FID, in the 2020 Internal Domestic Financing (*Ressource Propre Interne, RPI*) budget line of the MEF, non-reimbursable funds in an amount equal to 6,000,000,000 Ariary and (ii) that for the years 2021, 2022 and 2023, an RPI budget line is included in the budget law under the budget of the Prime Minister in a minimum amount of at least 18,000,000,000 Ariary (i.e., the equivalent of US\$5,000,000) per year to finance activities under the Priority SSN Programs for the benefit of 30,000 additional households, and that such funds for the relevant year will be mobilized upon publication of the relevant budget execution decree, and released to the FID’s dedicated account in Ariary in a single lump sum on the basis of a release request letter with a program for the utilization of such funds from FID; and
- (b) the Ministry of Population, Social Protection and Promotion of Women (*Ministère de la Population, de la Protection Sociale et de la Promotion de la Femme*) has validated a manual for the coordination and use of funds allocated to all SSN actions carried out by various stakeholders, including the Priority SSN Programs pursuant to *Arrêté N°3 973/20/MPPSPF Portant validation du Manuel de Procédure de coordination et d’utilisation des fonds alloués Programmes de Filets Sociaux de Sécurité à Madagascar*, dated 13 February 2020 and published in the *Journal Officiel* of the Recipient on 17 February 2020.

58. Policy reform. Under priority #10, the Government’s PEM calls for a rapid expansion of the national social protection system, specifically the non-contributory social cash transfer programs. Priority programs have been outlined in the Government’s recently endorsed National Social Protection Strategy. Despite promising and cost-effective results under these programs, coverage of SSNs is extremely low, due to minimal financing levels which are almost exclusively from donor financing. This reform will support the expansion of the coverage of the programs, through the mobilization of domestic financing. To that end, a Program Expansion Manual that stipulates the coordination mechanisms for defining expansion targets, selecting vulnerable populations, and agreeing on targeting mechanisms is included in the prior action.

59. The proposed indicative trigger is the guarantee of a Commitment Authorization of Payment Credit (*Autorisation d’Engagement de Crédit de Paiement, AEC*) in a budget line for the three priority SSN Programs in the 2021 draft budget law and medium-term-expenditure framework (MTEF).

60. Results. The expansion of SSN programs will result in over 30,000 households covered by priority SSN through domestic public financing,³⁸ as well as an increase in the amounts of financing streamlined through budget lines for priority SSNs and their management. This will result in greater efficiency in reaching coverage, reducing administrative costs, and benefiting from economies of scale, especially as these households are incorporated into the Single Registry of Beneficiaries. Through building a domestic resource base for financing SSNs, Madagascar will become less dependent on donor support for SSNs and

³⁸ Assuming US\$5 million in additional resources mobilized for the safety net in the short-term, at US\$125/family/year.



will advance toward the National Social Protection Strategy coverage goal of 15 percent of the extreme poor by 2023.

Prior Action #6: To facilitate channeling financing to public primary healthcare centers (*Centres de Santé de Base*) (“CSBs”) for community health programs and improve related decentralized public financial management and budget execution at the commune level, the Prime Minister, Head of Government has established rules relating to the management of budget allocations by the Ministry of Public Health to CSBs for community health programs, including, inter alia, provisions for the direct transfer of such CSB allocations to dedicated sub-accounts within the relevant communes’ existing treasury accounts, and for expenses to be executed in accordance with a CSB allocations procedures manual to be elaborated by the Ministry in charge of Health and integrated within commune budget procedures.

Legal Evidence: *Décret N°2019-2 117 portant mécanisme de gestion de crédits destinés aux Centres de Santé de Base du Ministère de la Santé Publique dénommé « Dotation CSB », dated 20 November 2019 and published in the Journal Officiel of the Recipient on 17 February 2020.*

61. Policy reform. While CSBs have few to no resources with which to operate, the GoM has been working to improve the PFM function at the commune level for more decentralized budget execution. This includes the appointment of 1,697 public accountants by the Treasury, reporting to mayors. Given this new financial management capacity, and since CSB administrators have an established relationship with the local communes, the Ministry of Public Health has a new potential channel for sending resources to the local level, while remaining on-budget, and benefiting from the accounting services of the communes. CSBs would have authority over the use of these accounts, ensuring that funds are not used for purposes outside of the health sector. This policy reform is therefore the adoption of regulations that will enable the creation of sub-accounts at the commune level to provide direct and regular financing to CSBs and frontline services. These commune sub-account funds for CSBs would be executed in parallel to the municipal budget through existing municipal accounts, under the direction of the CSBs, and according to simplified procedures currently being designed. The local health management committees (*Comités de Gestion, COGES*) would serve as the advisory body to orient the prioritization of expenditures. The public accountants (in charge of commune level expenditures and reporting to Mayors) would control the disbursements from the account, handling payment transactions. At the district level, the *médecins-inspecteur* would carry out their supervisory functions through ex-post verification of the use of funds, in addition to Court of Accounts oversight and third party (CSOs) monitoring.

62. The indicative trigger in this area is update of the MTEF to integrate additional resources for local level (CSBs and district health doctors) and their reflection in the budget law.

63. Results. The main results sought under this policy area are that frontline health centers are better able to provide services and implement community health activities, thanks to more regular financing of their basic operating costs. This will be measured by tracking the percentage of the amount of funds allocated to CSBs as indicated in the budget law that is disbursed by the communes for health facilities. (The target for 2021 is at least 85 percent). On the supervision side, the percentage of CSBs receiving technical and financial supervision and oversight, based on revised guidelines, will be used to track progress of the renewed role for district supervisors. In time, it is expected that other funds will also flow through these health-dedicated sub accounts, including the subsidies currently allocated to health from the Ministry of the Internal Affairs and Decentralization, and even local funds from the communes that are destined for



health activities.

Prior Action #7: To enhance transparency, oversight and accountability of budget processes and improve the efficiency of budgetary allocation and spending, the Prime Minister, Head of Government has established rules and principles of access to and use of data related to the budgeting of public entities, based on payments and cash, in revenues and in expenditures, in a format compliant with open data principles, applicable to users of (a) the Public Treasury Information System (SIT), the interface that permits collection or receipt of data from data providers and (b) the Public Treasury's Open Data Portal (*Portail des données ouvertes du Trésor*), a web-based platform through which the public may access the Treasury's open data relating to budget execution.

Legal Evidence: *Décret n° 2019-2 136 portant accès aux données « base Paiement et Encaissement » relatives à l'exécution budgétaire des Organismes Publics*, dated 26 November 2019 and published in the *Journal Officiel* of the Recipient on 17 February 2020.

64. Policy reform. The combined budget opacity, limited oversight, and closed budget processes weaken PFM, undermine accountability, and lead to inefficient allocation and spending. This is further exacerbated by the lack of system interoperability at the Budget and Treasury levels. The main elements of this reform are the adoption of a standardized format for the monthly disclosure of a budget execution performance report on a monthly basis to administrative and financial directors in line ministries, with payment information provided by the Treasury ("*base paiement*"). In line with the open budget and open data best practices, the publication of budget execution reports would also be accompanied by access to the existing budget execution dashboard that allows just-in-time analysis by the line ministries.

65. As the reform evolves, an indicative trigger for its continued progress in transparency would be the issuance of implementation decree by the Council of Ministers of the Open Data Bill (to be approved by parliament). This would provide an explicit statement of the Government's vision, goals, values and intention to pursue greater transparency, accountability, and efficiency. Specifically, this policy reform would offer a platform to disenfranchised and vulnerable groups to voice their concerns and needs, thereby ensuring that budget systems do not serve the interests of powerful elites. It would mandate the frequency and format of public consultations and parliamentary hearings based on international best practices and specify, *inter alia*, stakeholders involved, timing for consultations/hearings/audits, and their formats.

66. Results. The first immediate expected result would be the generation of budget execution reports with comprehensible and exploitable data in a timely fashion, accessible to line ministries. Practically, this involves the development of an interface under the SIGFP that would allow BOOST³⁹-like requests in a timely manner, in line with open budget policy and open data principles. The indicator that would be tracked is therefore the percentage of budget expenditures made in the social sectors according to the programmatic classification, with the view of having the share of expenditures in the social sectors increase. This system would also allow information on budget execution performance per budget holder, per expenditure types, and per economic, programmatic, functional and administrative classification (as per Public Expenditure and Financial Accountability (PEFA) standards). The generated dashboards would inform

³⁹ BOOST is a World Bank data initiative to facilitate access to budget data and promote effective use for improved decision-making processes, transparency and accountability.



decision-making and provide an alert system on bottlenecks (e.g. identifying payments to be prioritized), allow comparative analysis between what was planned/committed/executed within the budget cycle and over time, generate performance information, and allow performance comparisons across sectors. In time, it is expected that this will lead to reductions in the accumulation of arrears by the Government, as well as more timely payments to beneficiaries.

Prior Action #8: To reinforce the capacity to transparently evaluate the efficiency of tax expenditures with a view to optimizing tax revenues, the MEF has established the framework for periodic evaluation of the efficacy of tax and customs exemptions and other preferential tax regimes, including the division of responsibilities, the sharing of information, and the methodologies with the view of achieving the socio-economic objectives of fiscal spending.

Legal Evidence: *Circulaire n° 230 ISP_SG (Objet: Modalités d'évaluation périodique des dépenses fiscales)*, dated 22 November 2019, issued by the MEF.

67. Policy reform. The implementation and sustainability of the Government's program, including the reforms supported by this operation, rely on the availability of sufficient fiscal resources to support their financing over the medium to long run. While progress in domestic resource mobilization has been achieved over the past four years, with the tax to GDP ratio increasing by an average of 0.4 percentage points per year, Madagascar still has one of the lowest ratios in the world.⁴⁰ A more rigorous management of tax expenditures presents a high potential for increasing tax revenues and hence resources available to finance priority expenditures, including social spending. In 2018, tax expenditures were estimated at 2.7 percent of GDP, equivalent to 23.4 percent of tax revenues collected that year. The value of tax expenditures is estimated and published annually since 2017, but currently there is no publicly available cost-benefit analysis of new measures or periodic evaluation of the effectiveness of existing measures. This reform is supported by the adoption of a Ministerial Circular by the MEF, which reinforces the capacity to transparently evaluate the efficiency of tax expenditures by clarifying the responsibility of different entities in the evaluation and by requiring that all new proposed measures are accompanied by a description of socio-economic objectives and quantifiable result indicators.

68. The indicative trigger mandates all new tax exemption measures to be annexed to the Finance Law with a cost-benefit analysis, measurable socio-economic objectives, and result indicators.

69. Results. The reforms are expected to enhance the management of tax expenditures with the objective of improving the selection process and ensuring that ineffective measures can be identified and unwound through periodic reviews. The reform will bring more transparency in the allocation of public resources while the elimination of inefficient tax expenditures will contribute to increasing tax revenues and free resources to finance priority investments such as social spending. Progress under the reforms will be monitored through the reduction of the amount of tax exemptions as a proportion of overall fiscal revenues, representing at most 15 percent by 2021.

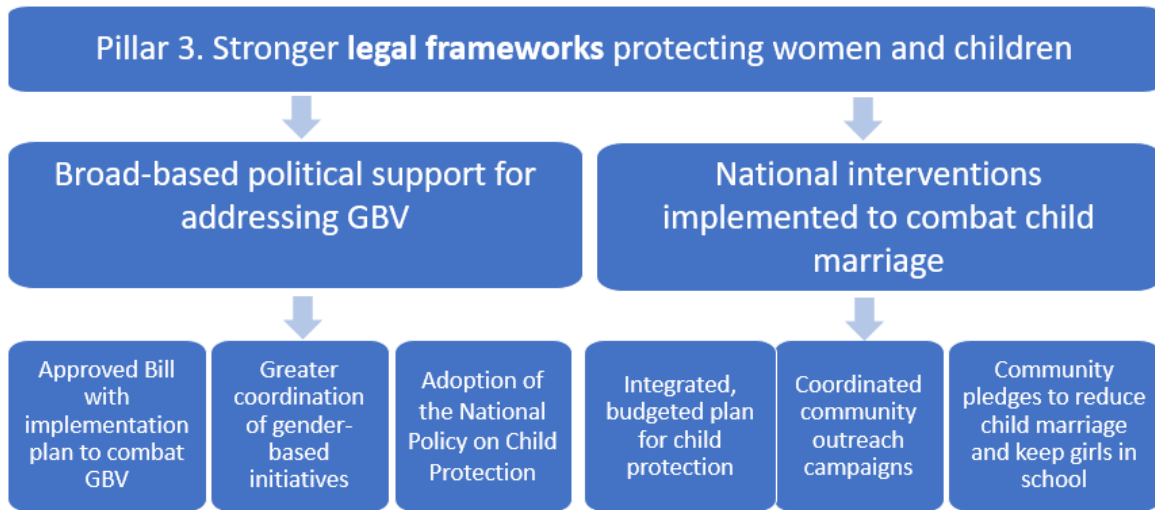
PILLAR 3: STRONGER LEGAL FRAMEWORKS FOR THE PROTECTION OF WOMEN AND CHILDREN

⁴⁰ Reforms to increase tax revenues were supported by the World bank through the Public Sector Performance Project (P150116) and the Public Finance Sustainability and Investment programmatic DPO (P160866 and P164137).



70. **Results chain (Figure 7).** Women and girls experience multiple forms of discrimination that contribute to inequalities in their access to health, education, and wages. Closing legal gaps is an important first step to systematically addressing these inequalities. The enactment of the law to combat GBV (Prior Action 9) and the adoption of the National Policy on Child Protection will be foundational to build broad-based support and awareness, to develop and implement integrated interventions to protect women and girls from violence and reduce child marriage. Operationalizing these legal protections will improve health and education outcomes of women and girls, that can eventually reduce disparities in their wages and wellbeing.

Figure 7: Theory of Change, Pillar 3



Prior Action #9: To strengthen the legal regime for the prevention and prosecution of acts of GBV and the protection of victims of GBV, Parliament has enacted a law relating to combatting GBV.
Legal Evidence: *Loi N° 2019-008 relative à la Lutte contre les Violences Basées sur le Genre*, promulgated 16 January 2020 and published in the *Journal Officiel* of the Recipient on 17 February 2020.

71. **Policy reform.** Despite a National Strategy on Gender-Based Violence (*Stratégie nationale de lutte contre les violences basées sur le genre*), Madagascar lacks a comprehensive law in accordance with international commitments under the Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW) and the Sustainable Development Goals (SDG), among others. Enactment of a national law on GBV is a fundamental step towards ending it. The new law would incorporate, among other things, comprehensive protections against domestic violence (physical, sexual, psychological, and economic), and specifically criminalize marital rape. The law is also a signal of the Government’s strong position on GBV, reinforced by the advocacy efforts of the country’s First Lady and GBV ambassador.

72. **Indicative triggers would be the adoption of National Policies on Gender Equality and Child Protection, and the development of an operational manual for community outreach campaigns, including model pledge to be signed by communities to combat child marriage.** This builds on the National Strategy to Combat Child Marriage (*Stratégie Nationale de Lutte Contre le Mariage d’Enfants*, SNLME), which aims to reduce child marriage from 41.2 percent in 2017 to 21.2 percent in 2024. It would also build on the



previous National Policy on Women’s Empowerment and Gender Equality (*Politique nationale de la promotion de la femme pour un développement équilibré homme-femme*), which covered the period between 2000 and 2015. Since then, there has been a vacuum at the policy level which has led to a dispersion of efforts on gender equality. The broader child protection framework would cover not only child marriage, but also other critical areas, such as violence against children, civil registration, trafficking, and child labor. Critically, this would also be accompanied by an integrated, budgeted plan for child protection, as well as coordinated community outreach to engage local leaders.

73. Results. The law on Gender-Based Violence, the National Strategy to Combat Child Marriage, and the policies on Gender Equality and Child Protection, would serve as blueprints of government priorities, helping coordinate efforts and investment by the different ministries and development partners, establishing clear lines of responsibility and minimizing duplication. These enabling policy frameworks would then lead to the implementation of coordinated community outreach campaigns, culminating in over 1,000 communities (*fokontany*) signing the pledge to combat child marriage.



Table 4: DPF Prior Actions and Analytical Underpinnings

Policy Area	Analytical Underpinnings
Pillar 1: Better qualified, distributed, and performing human resources in education and health sectors	
Policy Area #1. Teacher standards.	Madagascar requires a new career framework for teachers with minimum standards for recruitment, consolidated teacher training, and controls on absorption of civil servants (World Bank, 2017). As per the World Development Report (2018) and numerous other studies, the quality of teachers is the most critical factor for driving learning outcomes (World Bank, 2018). Specifically, teacher policies that render the teaching career more attractive and rewarding are more effective in recruiting and retaining better performing teachers (Bruns and Luque, 2014).
Policy Area #2. Teacher recruitment and promotion policies.	Better selection and retention policies, including meritocratic hiring, result in better teachers to improve student learning. Madagascar’s current teacher workforce lacks the minimum content knowledge required to ensure learning. In Africa, lack of content knowledge among teachers has been shown to account for as much as 30 percent of missing learning of children (Bold, 2019). Recent evidence has quantified the impact of having a great teacher (top 10 decile) as opposed to a poorly performing teacher (bottom decile). Estimates range from .23 of a standard deviation in Ecuador to .94 in India (Buhl-Wiggers et al. 2017; Bau & Das 2017). Put another way, with the average amount of learning estimated at between .3-.4 sd, the effect of a good teacher represents anywhere between one and three full additional years of learning for children (World Bank, 2018).
Policy Area #3. Quality control mechanisms for pre-service training in the health sector.	Madagascar is responding to an alarmingly low quality of clinician capacity, in terms of diagnostic accuracy and adherence to clinical guidelines, as highlighted in the National Plan for the Development of Human Resources for Health. According to 2016 SDI, health providers could correctly diagnose only 30 percent of five common conditions and no provider managed to correctly diagnose all five cases, and less than half a percent managed more than four cases. Accreditation of health training institutions is becoming increasingly essential for patient safety and quality clinical outcomes, particularly in light of the proliferation of private educational institutions. Accreditation should be based on standards, supported by legislation, undertaken independently and transparently, have the authority to accredit and sanction, and be publicly financed (World Health Organization, 2013). Private medical schools are less likely to go through an accreditation process than publicly funded ones. Accreditation provides a mechanism for social accountability, by directing health professional education towards priority health concerns of the public. (Hayward, 2006; Chen, 2010).
Policy Area #4. HRM systems.	AUGURE is a proven HRM system that can help to regulate Madagascar’s civil service. The introduction of AUGURE uncovered an estimated 5,000 non-declared individuals receiving pay, with resulting reforms producing savings of US\$10.5 million (approximately 0.11 percent of GDP) by 2017 (World Bank, 2017). Service Delivery Indicators have also indicated understaffing of health and education personnel in rural areas, which the system can help address together with the indicative trigger of aligning civil service positions to geographic posts.
Pillar 2: More transparent and predictable investments in human capital	
Policy Area #5. National SSNs.	Mid-line impact evaluations of Madagascar’s three cash transfer programs demonstrate their positive impacts on poor and vulnerable populations. The programs have shown impacts on children in the following areas: school attendance and enrollment, women’s empowerment, food security, and child development (including language, social, fine motor, and cognitive development). Estimates of impact on child development range from 0.14 to 0.27 (depending on whether the program is just cash, or includes early stimulation and parenting education through Mother Leaders). These can be strengthened through



	enhancing a coherent SSN system, including coordinated development and disaster response. (World Bank, 2019; Datta, et al., 2019; Ngatia and Ketema, 2019)
Policy Area #6. Transferring funds to frontline service providers in the health sector.	<p>Madagascar’s health financing is relatively low, centralized, and inequitable. It favors the wealthiest income quintiles; disadvantages primary care facilities and rural areas where the majority seek care; and is proportionally insufficient for pregnant women and children who bear a large portion of the total disease burden. (World Bank, 2018; Ramamonjisoa and Lang, 2018).</p> <p>There are acute shortages of basic inputs, particular at lower levels of care. It has been shown that decentralization can increase technical efficiency across health services. (Channa and Faguet, 2016).</p> <p>Both performance-based and direct facility financing have demonstrated positive impacts on the coverage and quality of key maternal child health services. These interventions were likely successful due to decentralization of funds, autonomy given to the facilities, improved supervision, and investments in health systems management. (Kandpal et al. 2019)</p> <p>Guaranteeing sufficient funding at health facilities is a crucial condition for exemption schemes (FANOME/equity funds) to function, to ensure providers can both efficiently deliver care and protect poor households from financial risk. Not having enough funding for primary care facilities to provide free services under equity funds (resulting in patients needing to bring their own surgical material) limits access. These effects were demonstrated through studies of the introduction and removal of user fees. (Honda and Hanson, 2013; Garchitorea, et al. 2007).</p>
Policy Area #7. Improved transparency in budget execution.	Public access to fiscal information in Madagascar is extremely limited, as are the opportunities for the public to engage in the budget process, as highlighted in the 2018 PEFA and 2019 Open Budget Survey. Budget documents should provide more analysis on budget execution, financial assets, and the impact of new revenue and expenditure measures.
Policy Area #8. Increased fiscal revenues	Tax abatements and preferential tax regimes reduce tax revenues by nearly a quarter every year in Madagascar, equivalent to the cost of constructing 3,375 primary school buildings or two for each single municipality. International experience shows that tax incentives are not a major factor behind attracting investments and are effective only under broader reforms of the business climate, while duty free imports can make it harder for local production to compete with more capital- or skill-intensive processes abroad.
Pillar 3: Stronger legal frameworks for the protection of women and children	
Policy Area #9: Strengthened legal frameworks for women and children.	<p>Nearly half of all Malagasy women (48 percent) aged 20-24 were married or cohabiting before the age of 18. Child marriage is linked with: (i) fertility and population growth; (ii) health, nutrition, and violence; (iii) educational attainment and learning; (iv) labor force participation and earnings; and (v) participation, decision-making, and investments. Data shows that in Sub-Saharan Africa, each year of early marriage reduces the probability of a girl completing secondary school by about 4 percentage points.</p> <p>In Madagascar there is no legislation specifically protecting against domestic violence and marital rape is not explicitly criminalized. Beyond the individual harm inflicted on women and their families, the substantial economic costs of GBV in terms of human capital are well documented. (Tavares and Wodon, 2018; World Bank, 2017; UNFPA, 2012)</p>



4.3. LINK TO CPF, OTHER WORLD BANK OPERATIONS AND THE WBG STRATEGY

74. This operation is at the heart of the World Bank Group (WBG) strategy for investing in human capital in Madagascar and globally through the Human Capital Project. The dual focus on the civil service in the human development sectors as well as governance actions throughout the public sector emerges as a response to the systemic bottlenecks identified through the Systematic Country Diagnostic (SCD⁴¹). The policy reform areas supported are direct contributions to four of the Country Partnership Framework's (CPF FY17-21⁴²) eight objectives: (i) investing in children's human development; (ii) enhanced and effective decentralization; (iii) enhanced transparency and accountability; and (iv) increased fiscal capacity to finance priority social and infrastructure spending. It also supports the cross-cutting CPF objective of advancing gender equality, including through the promotion of women's agency in human development (e.g. through enhanced legal protections, social protection schemes supporting Mother Leaders for human development and women's economic participation, and improved primary reproductive and maternal health services).

75. Specifically, the DPF series dovetails with policy areas directly supported by investment operations (see Table 5). There is a strong investment portfolio in Madagascar covering health, education, and social protection. In health, the flagship program is Improving Nutrition Outcomes (*Projet d'Amélioration des Résultats Nutritionnels*, PARN, P160848), a 10-year program, and the first to use the World Bank's multi-phase approach instrument. In education, the Basic Education Project finances much of the technical assistance (TA) that accompanies the policy reforms supported through this operation, most notably the actions around Teacher Standards, developing the National Teaching Career, and the new recruitment policies for community teachers. In social protection, all three of the SSN priority programs featured in the National Social Protection strategy have been financially supported by the World Bank, and have benefited from extensive TA, including in the form of technical support for carrying out impact evaluations. Much of the analytical underpinnings in this area stem from activities around the investment operation.

76. Equally important is how these policy reforms support the agendas on decentralization, governance and service delivery. First, many of the policy areas tackled under this operation complement activities financed by the Integrated Growth Poles Project (*Pôles Intégrés de Croissance*, P083351), which seeks to strengthen the capacity for decentralized actors to better spend grants intended for local development. In a similar vein, the support for decentralization and deconcentration is fully aligned with the objectives of the Public Sector Performance Project (*Projet d'Appui à la Performance du Secteur Public*, PAPSP, P150116), aimed at improving the flow of resources to improve local service delivery. The increased transparency and participation promoted by the policy reforms also complement PAPSP's efforts towards making central government institutions more transparent, participatory and accountable. Finally, by constraining the usage of parallel systems for human resources management, the proposed operation lays the groundwork for the rationalization of digital systems in the Government, one of the key activities of the Digital Governance and Identification Management System Project (*Projet de Gouvernance Digitale et d'Identité Malagasy*, PRODIGY, P169413) project (under preparation).

⁴¹ Report number 99197

⁴² Report number: 114744-MG



Table 5. CPF Objective, Policy Actions, and Investments/Interventions

CPF Objective & Policy Actions	Examples of Investments/Interventions
<p><u>1. Investing in children’s human development</u></p> <p>Policy Area #1. Teacher standards.</p> <p>Policy Area #2. Teacher recruitment and promotion policies.</p> <p>Policy Area #3. Quality control mechanisms for pre-service training in the health sector.</p> <p>Policy Area #9. Strengthened legal frameworks for women and children.</p>	<p><i>Basic Education Support (US\$100 million, P160442):</i></p> <ul style="list-style-type: none"> - Design of standards for teachers and school directors - Design of deployment plans - Training of teachers - Creation of community preschools - Transfers to schools <p><i>Improving Nutrition Outcomes (US\$80 million, P160848):</i></p> <ul style="list-style-type: none"> - Implementation of National Community Health Worker Policy - Performance-based financing of community/nutrition workers - Integrated package of nutrition services - Strengthening supervision and management functions at district and regional levels <p><i>Public Sector Performance Project (US\$40 million, P150116):</i></p> <ul style="list-style-type: none"> - Reinforces timeliness of payments to community teachers - Implements teacher management system
<p><u>3. Enhanced and effective decentralization</u></p> <p>Policy Area #6. Transferring funds to frontline service providers in the health sector.</p>	<p><i>Public Sector Performance Project (US\$40 million, P150116):</i></p> <ul style="list-style-type: none"> - Improve Local Governance Index - Improve timeliness of fiscal transfers to local governments - Improve local government revenue mobilization revenue (not including grants) - Improve timeliness of payments to community <p><i>Integrated Growth Poles Project (US\$165 million, P083351)</i></p> <ul style="list-style-type: none"> - Strengthens the capacity for decentralized actors to better spend grants intended for local development.
<p><u>4. Enhanced transparency and accountability</u></p> <p>Policy Area #4. HRM system</p> <p>Policy Area #7. Improved transparency of budget execution.</p>	<p><i>Public Sector Performance Project (US\$40 million, P150116):</i></p> <ul style="list-style-type: none"> - Improve budget transparency and access to information - Improve participation of civil society - Ensure regular oversight by Court of Account and CSOs - Improve timeliness of public reports
<p><u>5. Increased fiscal capacity to finance priority social and infrastructure spending</u></p> <p>Policy Area #5. Financing SSNs.</p>	<p><i>Social Safety Net Project (US\$90 million, P149323):</i></p> <ul style="list-style-type: none"> - Increased school attendance through cash transfers - Cash support to 160,000 poor households - Improved parenting practices by building mothers’ knowledge and practice in the areas of maternal and child health - Better knowledge of family planning, nutrition and early child stimulation - Strengthened early childhood accompanying measures through group meetings, home visits, cooking and feeding demonstrations, and listening sessions to encourage good practices by parents - Mobile crèches during parents’ cash-for-work hours, by training beneficiaries to operate the crèches with play-based methods for beneficiary children



4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

77. Consultations. The various reform initiatives herein have benefited from consultations with Malagasy associations, non-governmental organizations, teachers' unions, and other civil society representatives. Specifically, the World Bank team has been working closely with the Citizens and Organizations Collective (*Collectif des Citoyens et des Organisations Citoyennes*, CCOC), a civil society group aiming for more transparency in the budget process, which directly informed government thinking on next steps for improving Madagascar's Open Budget Score. Similarly, in discussions with the National Coalition for Education for All (*Coalition Nationale Malagasy pour l'Education Pour Tous*, CONAMEPT) and with teachers' unions, policy elements linked to a more equal distribution of teaching resources, and improvements in teacher policies such that the teaching career is more professional, challenging, and rewarding, have helped inform the policy directions in Madagascar.

78. Collaboration with Development Partners. This operation is the result of a collaborative effort across sectors and partners. Overall, the policy matrix has been prepared in partnership with the EU⁴³. The two institutions have held several joint missions, crafting a unified matrix for the two institutions' respective budget support operations. This first phase has benefited from technical support provided by the EU on the civil service reform, specifically linked to AUGURE. The health financing and human resources actions have been informed by investment experiences financed by the EU, the French Agency for Development (*Agence Française de Développement*, AFD) and others. The teacher policies work builds directly on technical work undertaken by MENETP in close partnership with United Nations Educational, Scientific, and Cultural Organization (UNESCO) and has benefited from the active participation of Local Education Partners Group led by United Nations Children's Fund (UNICEF), including the teacher policies sub-group led by AFD.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT SUMMARY

79. The Poverty and Social Impact Assessment (PSIA) assessed the impacts of the proposed DPF on the poorest segments of the population. For health, education and social protection, the PSIA answered the following questions: (i) Which population groups stand to benefit the most?; (ii) How much will these groups benefit?; and (iii) Who are those that stand to lose? By assessing the expected distribution of benefits, the analysis has reduced the risk that benefits bypass the individuals who need them most and has informed the design of policy measures to enhance human capital outcomes.

80. The PSIA analyzed the DPF-supported reforms along three dimensions. First, the assessment considered the progressivity (degree to which they are pro-poor and targeting disadvantaged groups) of the expected impacts of the reforms. Second, the analysis estimated the marginal impacts (degree to

⁴³ This first phase of budget support is to be financed by IDA. In 2020, it is expected that the EU's budget support operation would support associated result indicators. The next phase of the Human Capital DPF would then continue the reforms through 2021.



which they increase human capital from the baseline) of the reforms, focusing on the expected changes to service delivery. Third, the analysis discussed political economy implications, estimating how different interest groups may influence or be influenced by the proposed measures. The results of each of these analyses are presented below.

81. The improvements estimated in the PSIA for Madagascar’s HCI range from a base of 0.37 in 2017 to a low case of 0.40, and a high case of as much as 0.47 by 2025, representing increases of 7 to 24 percent. The HCI is a productivity indicator that estimates how much a child born today in Madagascar will contribute to the Malagasy economy once she enters the labor market. Increases in productivity will in turn boost economic growth and reduce poverty. As per recent estimates published in the Lancet, Madagascar loses between 7 and 12 percent of its GDP annually as a result of not addressing developmental needs of children in the first 1,000-day window⁴⁴. As such, the HCI is a useful indicator to translate how the reforms supported under the Human Capital Development Policy Financing ultimately contribute to improved outcomes for Malagasies, especially the poor.

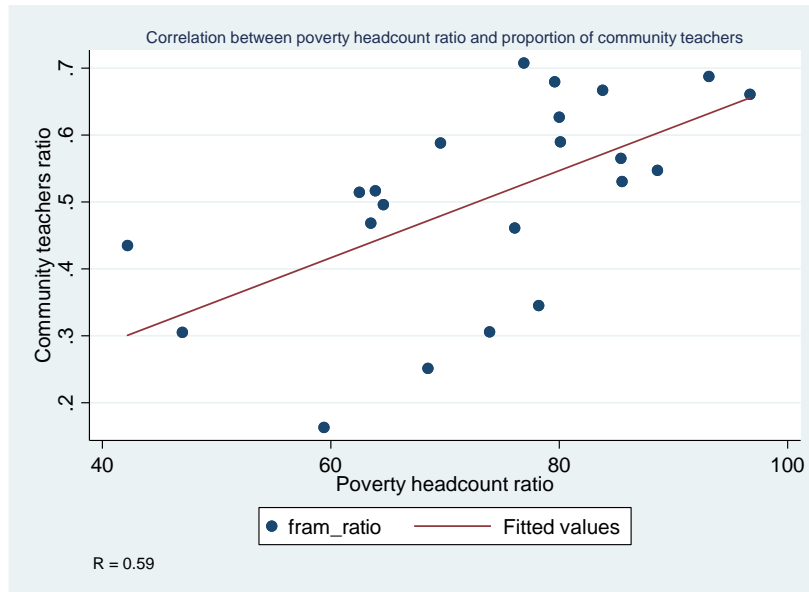
Progressivity dimension – to what extent are the reforms pro-poor?

82. Overall, the bottlenecks to service delivery that the DPF seeks to resolve disproportionately benefit the poor. The distributional impact analysis focuses on the following elements of the operation: the changes to recruitment measures for community teachers, the changes that determine which teachers get promoted, the financing of health centers, and the expansion of the SSNs. Improving recruitment of community teachers will improve teacher quality in the poorest parts of the country. When looking at the distribution of civil servants, contract teachers, and community teachers, we find that 26 percent of civil servant teachers are posted in urban cities, despite such cities representing only 13 percent of the student population. On the other hand, community teachers, which account for 53 percent of the teaching force, are nearly always found in poorer, more rural, and more remote parts of the country. Figure 8 shows the correlation between the poor regions and the proportion of community teachers in schools located in the area. This highlights that community teachers are disproportionately placed in schools that serve poorer households in Madagascar. This suggests that by concentrating on improving the quality of community teachers recruited, the reforms will benefit marginalized schools the most.

⁴⁴ Richter LM, Daelmans B, Lombardi J, et al. Investing in the foundation of sustainable development: pathways to scale up for early childhood development. Lancet. 2017;389(10064):103–118. doi:10.1016/S0140-6736(16)31698-1.



Figure 8. Correlation between Poverty Headcount Ratio & Proportion of Community Teachers



Source: Authors' calculations, based on INSTAT Millennium Development Goals, 2012 and MENETP, EMIS data, 2017-2018.

83. The current promotion policies are directly responsible for the inequality in the distribution of teachers that are financed by the state. The DPF is working to correct this inequality through changing the promotion method of teachers. Since 2014, the beginning of promoting teachers through awarding contracts associated with significantly higher salaries, the selection of which schools will benefit has been driven by (i) political patronage, and (ii) teacher seniority. The first teachers to be awarded contracts were those with the most political voice, geographically closer to the centers of decision-making, and associated with collective bargaining capacity (e.g. able to threaten or go on strike). The reform inserts an algorithm into the awarding of contracts that prioritizes (i) very rural areas, and (ii) within rural areas, schools that currently do not have any civil service or contract teachers. By instituting the reform, the DPF works to flip the prioritization of the populations to be supported. The distribution of these benefits is therefore almost wholly toward those parts of the country that are most neglected by current government policy approaches.

84. The benefits of the health financing reforms will also accrue to the most rural parts of the country. The DPF introduces a public financing reform that serves to remove the current bottlenecks that prevent financing for clinics to reach their intended destination. Although each of Madagascar's 3,000 clinics has almost US\$1,000 allocated to it in the Ministry of Public Health's budget, clinics rarely – if ever – receive those funds. When they do, it is as an in-kind contribution from health districts that estimate the clinic's needs on their behalf. The reform is an important first step in eventually correcting the inequities in health financing, since rural and semi-rural areas account for only 5 and 13 percent of non-recurrent spending respectively, despite serving more than half of the population⁴⁵. Antananarivo alone has 45 percent of the country's doctors (public and private), despite accounting for only about 10 percent of the population.⁴⁶

⁴⁵ World Bank PER, 2014.

⁴⁶ World Bank Service Deliver Indicator Survey, 2016.



Public health facilities also serve primarily poor segments of the population, since poor households are disproportionately reliant on seeking health services from the public sector. In contrast, higher income households are able to seek health services at private facilities or travel to hospitals in the cities. A large literature documents distance to health services as a barrier to health care and contributes to infant and child mortality⁴⁷. Therefore, improving resources to health clinics that are positioned to serve areas that have no other health options close by is critical to serving those that are most vulnerable.

85. Efforts to improve the quality of health services will also disproportionately benefit the poor. Those rural CSBs that tend to serve the poor also tend to have the lowest quality of services, and therefore stand to benefit the most from improvements in the allocation and qualifications of health staff. For instance, while para-professionals working in rural areas accurately diagnosed on average only 18.6 percent of tracer conditions, this number was more than 40 percent for para-professionals in urban areas.

86. The benefits related to the expansion of SSNs are also concentrated among the poor. The reform expands the three priority SSN programs by channeling domestic resources through the national budget. The three programs are the Human Development Cash Transfer Program (TMDH), the ACTP, and FIAVOTA, an emergency response program. Each of these programs selects beneficiaries in the following ways. First, each program uses geographic targeting to select the poorest and most vulnerable communities in the country. Second, TMDH uses proxy-means testing to identify which households are most vulnerable and are most in need of support from SSNs. The ACTP program provides cash for work on community projects during the lean season when households are most in need of support. For FIAVOTA, the program is a direct response to vulnerable populations that have lost much of their livelihoods due to a shock, in this case a drought, and the program targeted households receiving assistance through the ONN. Therefore, these reforms explicitly use a targeting mechanism that identifies vulnerable and poor households.

Marginal impact dimension – how much human capital will the reforms generate?

87. The marginal impacts of the reform are estimated using the HCI framework. For education, the analysis estimates how much additional learning can be expected, due to the proposed reforms around the improved quality of teachers, and the cognitive development gains of children participating in SSNs. With regards to health, the impacts of improved health financing and nutrition benefits from participating in SSNs are estimated for child survival and the prevention of stunting. After describing the link between the reforms and the potential human capital impacts, we present three scenarios that estimate impacts on the HCI.

88. The most important factor for improving learning outcomes among children is teachers. The PSIA estimates the expected improvement in the quality of teachers resulting from (i) reforms to community teacher recruitment, and (ii) reforms to teacher promotion. Based on findings in the literature, the analysis then estimates how much additional learning can be expected due to the subsequent improvement in teacher quality. The causal mechanism for translating teacher quality into learning is two-fold: teachers with improved mastery of the content they are meant to be teaching, and improved pedagogical practices

⁴⁷ Anja Schoeps, Sabine Gabrysch, Louis Niamba, Ali Sié, Heiko Becher, The Effect of Distance to Health-Care Facilities on Childhood Mortality in Rural Burkina Faso, *American Journal of Epidemiology*, Volume 173, Issue 5, 1 March 2011, Pages 492–498 <https://academic.oup.com/aje/article/173/5/492/89038>.



in imparting that knowledge in their students.

89. For content knowledge, we calculate that the recruitment reforms will yield new teachers that perform in the top decile of the distribution of all teachers. Teachers recruited under the new criteria will by definition have their Baccalaureate (Bac) certificates, as this is among the new criteria introduced for communities to recruit their teachers. Prior to the policy, less than 10 percent of unsubsidized community teachers had the Bac. Over time, this resulted in a growing number of teachers without a Bac degree. The reforms also prioritize hiring teachers based on their mastery of content knowledge. Recent analysis across Africa has suggested that a teacher's mastery of content knowledge is an important factor in student learning. In terms of marginal impact, we therefore assume that, by 2025, the newly-recruited teachers' performance will be equivalent to those in the top ten percent of the distribution of existing teachers.

90. For pedagogical practices, we estimate changes in the promotion policy to improve the stock of qualified teachers. Introducing a new algorithm for selecting contract teachers that prioritizes those teachers with pedagogical qualifications will over time result in a stock of teachers with better abilities to teach. For 2019, about half of the 5,000 teachers to be awarded contracts will be those that have gone the extra mile to obtain a Pedagogic Support Certificate (*Certificat d'Appui Pédagogique, CAP*) or a Teachers' Support Certificate (*Certificat d'Appui d'Enseignant, CAE*), both of which are two year programs designed to equip teachers with more effective teaching practices, whether they have the Bac (CAP) or a grade nine leaving certificate (CEPB).

91. Working from the literature, the PSIA estimated how much additional learning would result from the improved content knowledge and pedagogical practices of teachers. Improving the quality of teachers can have large impacts on learning. For content knowledge, we know from research using Service Delivery Indicator surveys from Sub-Saharan Africa that content knowledge accounts for as much as 30 percent of the shortfalls in student learning (Bold, 2018). Recent evidence has quantified the impact of having a great teacher (top 10 decile) as opposed to a poorly performing teacher (bottom decile). Estimates range from .23 of a standard deviation in Ecuador to .94 in India (Buhl-Wiggers et al. 2017; Bau & Das 2017). Put another way, with the average amount of learning estimated at between .3-.4 sd, the effect of a good teacher represents anywhere between one and three full additional years of learning for children (World Bank, 2018).

92. On the health side, the policy reforms work to create the conditions for the implementation of several high-impact interventions known to reduce stunting. The Malagasy Government and the World Bank have identified low coverage of health and community-based nutrition services, with very high inequities in utilization of health services, as the top bottleneck preventing the delivery of services that will tackle stunting. These include community-based delivery of micronutrient supplementation and promotion of breastfeeding. By getting an additional US\$1,000 in operating costs to CSBs per year for the next five years, we estimate that this would result in the following increases in coverage of community health services:

- a. At least 130,000 children covered by nutrition information campaigns that otherwise wouldn't be covered (at least 44 additional children/CSB).
- b. At least 130,000 parents would be educated in better nutrition strategies (at least 44 additional parents/CSB).



- c. At least 130,000 children would be screened and referred to services (at least 44 additional children/CSB).

93. Working from previous estimates by World Bank staff of impacts of increased coverage on stunting, the PSIA estimated that this would result in an increase of non-stunted children of at least 2 percentage points. As per the Improving Nutrition Outcomes in Madagascar Project (P160848), it is estimated that the increased coverage of services by community-based nutrition specialists financed directly by CSBs would translate into at least 2 percentage points, from 51 percent to 53 percent.

94. With regards to child survival, the increased operational costs for CSBs to implement the community health strategy would mean more vaccination campaigns. About 25 percent of child deaths are attributable to preventable diseases. To date, the Government, together with its partners (mainly GAVI and UNICEF), have conducted immunization campaigns in a responsive manner, often after the appearance of outbreaks. There are many drivers to this, including the cold chain to make sure that vaccines are adequately stored and maintained. However, at the community level, where the service delivery ultimately happens, the inability of clinics to mobilize local public health agents to carry out campaigns according to an ex-ante approach ("*strategie avancée*") is a major bottleneck to protecting children from preventable diseases. We estimate that, through this funding, clinics would be able to carry out two additional campaigns per year, resulting in an increase of the coverage rates, and a reduction in child mortality.

95. Expansion of SSN coverage will also lead to improved development outcomes for children. The programs have shown impacts on children in the following areas: school attendance and enrollment, women's empowerment, food security, and child development (including language, social, fine motor, and cognitive development). Estimates of impact on child development range from 0.14 to 0.27 (depending on whether the program is just cash or includes early stimulation and parenting education through Mother Leaders). Further, the expansion of SSNs would also translate in more children receiving nutrition services. It is expected that over 30,000 additional poor households would benefit from the accompanying measures under the safety net. At about five children per household, this means that an additional 150,000 additional children would benefit directly.

96. The proposed DPF operates in conjunction with several other initiatives, including several investment operations that will also work to boost the impacts of the reforms; as such, these estimates can be interpreted as lower bounds. In particular, the education sector is currently being supported by a US\$100 million Basic Education Improvement Project (PAEB, for its French acronym) co-financed by IDA and the Global Partnership for Education. The newly recruited teachers stand to benefit from new training opportunities being provided by PAEB, which is offering a decentralized approach to supporting newly recruited teachers. Similarly, the vaccination campaigns would be undertaken in coordination with actors like UNICEF and GAVI. In conversations during preparation, it was clear that the technical capacity for monitoring the delivery of vaccines from the central to the community level can be done, but that last-mile delivery depends upon the CSBs having the operation costs needed to carry out their responsibilities. Figure 9 below summarizes the potential human capital gains to which policy reforms supported through this DPF can contribute.



Figure 9. Human Capital Gains from DPO-supported Policy Reforms

Estimating HCI Impacts	Scenarios			
	2018	Low	Mid	High
Component 1: Survival				
Probability of Survival to Age 5 (0-1)	0.96	0.96	0.96	0.97
Contribution to productivity as future worker (A)	0.96	0.96	0.96	0.97
Component 2: School				
Expected Years of School (0-14)	7.5	7.5	7.8	8.1
Harmonized Test Score (300-625)	351	411	451	501
Contribution to productivity as future worker (B)	0.46	0.48	0.51	0.55
Component 3: Health				
Fraction of Children Under 5 Not Stunted (0-1)	0.51	0.53	0.55	0.60
Fraction of 15-Year Olds Who Survive to Age 60 (0-1)	0.79	0.79	0.79	0.80
Contribution to productivity as future worker (C)	0.86	0.86	0.86	0.87
Human Capital Index (A x B x C)	0.37	0.40	0.42	0.47
Percent increase in the HCI		7%	13%	24%

Source: Author’s calculations, using HCI framework.

97. **Low case scenario: Minimal increases in learning and minimal reductions in stunting would boost the HCI to 0.40 by 2025, comparable with Tanzania’s.** This scenario estimates that learning would increase as per those countries with similar reforms at the low end of the distribution. Increases in learning would be the equivalent of half of a year of learning, for three years. With regards to stunting, it assumes that the increases in community health outreach achieve reductions of only 2 percentage points.

98. **Medium case scenario: Increases in learning and years of schooling, and reductions in stunting, would result in an HCI of about 0.42, akin to Botswana’s.** This scenario assumes that the quality of teaching would jump such that student learning scores would reach 451, an increase of 100 points from the 2018 estimates. While this may seem like an unrealistic jump in scores, it represents a return to where Madagascar scored on standardized tests in 2006. On years of schooling, it assumes that the impacts on school attendance and enrollment would translate in improvements in years of schooling by a few months on average. With regards to stunting, it represents a reduction of 4 percentage points.

99. **High case scenario: Increases in learning and years of schooling, reductions in stunting, improvements in child survival, would lead to an HCI of more than 0.47, in line with countries like Nepal or Myanmar.** This scenario implies improvements in learning of 150 harmonized test score points, and more than half a year of additional years of school. On stunting, it means a reduction of 9 percentage points, and for child survival, a full percentage point, bringing the rate from 96 to 97.

Political economy dimension – who stands to lose?

100. **In considering the political economy dimension, a stakeholder analysis was conducted to identify**



the winners and losers of the reforms, as well as their relative influence. With regards to the health training reforms, it is likely that the reforms will result in many of the low-quality private training providers closing as a result of the reforms. On budget transparency, it is assumed that certain individuals currently benefit from the absence of transparency in public expenditures.

101. Importantly, higher budget transparency should contribute to higher allocative efficiency, and therefore more gains for the public. Higher transparency enables greater scrutiny by the public and contributes to holding the Government accountable to executing budgets as allocated by the budget law. Large parts of public revenue and expenditure are reported outside of the Government's financial reports. About 15 percent of public expenditure and 13 percent of overall public revenue in Madagascar are not included in the main financial reports and data on public revenue collected at health facilities is very limited and of low quality. The 2018 PEFA assessment provides a poor verdict on transparency and rates public access to fiscal information with a D, the lowest score possible. Overall, low PEFA scores as a measure for PFM quality are associated with lower health outcomes.

102. For fiscal revenues, the people that are most likely to lose are those that could successfully lobby for exemptions from the tax code in the absence of a benefit incidence analysis. Tax exemptions represent 23 percent of government revenues, implying that government revenues could be significantly boosted should a more evidence-based approach to establishing the public interest in granting the exemptions be introduced. The DPF supports reforms that require future tax exemptions to be justified through objective analysis that calculates the gains and identifies who stands to benefit so as to estimate whether such exemptions are in the public interest. While this will benefit the Malagasy public budget at large, it comes at the expense of those elites that have to date been able to successfully lobby for their companies/sectors to be exempted.

5.2. ENVIRONMENTAL ASPECTS

103. The proposed DPF has been screened for climate and disaster risk, identified as Moderate considering the strong risk management capacity demonstrated in previous operations in relevant sectors. The specific policies supported by this DPF associated overall with positive environmental impacts, notably as there are several climate co-benefits that will be generated (see Annex 5). The links between investments in human capital and adaptation to climate change in Madagascar are strong and clear. Madagascar faces significant risks from climate change. Cyclones, droughts, and floods are common and increasingly frequent and intense, affecting food security, drinking water supply and irrigation. The human health impacts are complex and include increased risks from water and vector-borne diseases, injuries, nutritional deficiencies as well as the risk multiplication of preexisting health burdens such as NCDs and mental health. In addition, there are impacts on the health service delivery as well as social service delivery systems and infrastructure. This DPF is expected to enhance climate adaptation through the following three ways: (i) increasing human and financial resources to strengthen the role of health and education service providers in adaptation; (ii) increasing the efficiency and flow of resources to SSNs for victims of climate-related disasters, including through climate-adaptive public works; and (iii) strengthening the policy and legal foundation to ensure women and children, who are particularly climate-sensitive, can participate and benefit from adaptation efforts. Estimated financial benefits include the enabling of financing channeled to over 3,000 primary care facilities (an estimated US\$6 million over two years), enhanced and streamlined financing to climate responsive SSNs (an estimated US\$10 million over



two years), as well as other benefits such as enhanced participation of teachers and more equal benefit of women and children in national adaptation processes.

104. Improved teacher standards will incorporate environmental stewardship into Malagasy values that teachers are expected to develop in students. Investments in primary care and the development of human resources in health will include better preparedness to respond to the impact of climate change on human health and systems.

105. SSN expansion offers further opportunities for climate co-benefits, through both climate adaptation and by furthering the shock-responsive nature of SSNs. Financing will be made available to expand climate-adaptation activities through SSN systems. The existing cash-for-work program supports several climate-adaptive public works activities, selected by local communities, with technical support from relevant ministries, as well as the social protection system stewards. Examples of activities carried out to date are watershed management activities, terracing, and reforestation. Financing will also be made available to expand response capacity to climate shocks through the shock-responsive social protection system through the FIAVOTA program, a direct response to vulnerable populations that have lost much of their livelihoods due to climate-related shock, i.e. droughts.

106. Gender analysis in Madagascar also highlights how legal and policy frameworks on gender equality are fundamental to provide a mandate for integrating gender in National Adaptation Plan processes. The DPF seeks to address formidable gaps that still exist in the legal framework in Madagascar, starting with the law to combat GBV. Although controversial, studies indicate that there is a linkage between rising temperatures and increase in aggression and violence in society (World Bank, Climate Change Knowledge Portal, 2019). Thirty percent of Malagasy women declared having suffered from some kind of violence (psychological, physical, sexual or economic). For women to realize their potential as agents of change in adaptation, these gaps must be overcome through services based on gender-responsive policy and law. Children, especially girls, are also at heightened risks of the effects of climatic shocks, expected to increase. Investigations have linked hardship from climate related shocks to increases in the prevalence of child marriage in societies like Madagascar, where the bride's family receives a dowry payment, used by some families as a means of income. The DPF's indicative triggers on the adoption of National Policies on Gender Equality and Child Protection would also include the development of an operational manual for community outreach campaigns, including the model pledge to be signed by communities to combat child marriage.

107. In Madagascar, the Ministry of Environment and Sustainable Development is responsible for setting policy guidelines on environmental issues and the National Office of the Environment ensures compliance with national environmental standard under the tutelage of the Ministry. The National Environmental Charter sets out the principles and framework for environmental standards in Madagascar and the application of the law for aligning investments with the environment is codified by decree (MECIE decree n° 99-954, December 15, 1999 modified by decree n° 2004-167, February 3, 2004) for different levels of impact, and associated impact assessments required, for each project and sector. Additionally, each sectoral ministry has specific departments to guide investments compliance with national environmental standards and provide authorization for projects of Annex II of the MECIE decree, i.e.. lower risk impacts. Interventions in the health, education and social protection sectors follow these guidelines including through support of World Bank investments.



108. World Bank investments in relevant health, education and social protection sectors have established environmental safeguards instruments that are well established and being implemented successfully and set a strong foundation for the implementation of this operation. In the health sector through the Integrated Approach to Improving Nutrition Project (P160848), Madagascar developed a National Medical Waste Management Plan (NMWMP) that is adequate to manage and mitigate any eventual impacts of increased medical waste. In the education sector, through the Basic Education Support Project (P160442), an Environmental and Social Management Framework (ESMF) has been prepared and has formulated standard methods and procedures, along with institutional arrangements for screening, review, approval and implementation and monitoring of specific Environmental Management Plans (EMPs), including the preparation of environmental clauses to be inserted in contractors' bidding documents and is adequate to manage and mitigate any eventual impacts of this operation. In the social protection sector, Madagascar Social Safety Nets Project (P149323) and the Additional Financing (P167881) risks and negative environmental impacts associated with small rehabilitation works and cash for works (on agroforestry, reforestation, agriculture, dredging, creation and redesign of irrigation/drainage canals, micro-development of small dams and rehabilitation of canal banks, fish farming,) as well as family farming and livestock activities are managed through the implementation of an ESMF. The ESMF has established specific screening procedures and steps for developing additional EMPs if needed. These measures and procedures are adequate to manage and mitigate any eventual impacts of this operation including increased activities supported by the FIAVOTA system.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

109. Madagascar's fiduciary risk is substantial, but policy actions taken by the Government to strengthen PFM and expenditure controls help to mitigate these risks. The GoM has been implementing a PFM Reform Program aimed at restoring financial controls and accountability, and it is receiving a large amount of TA in this area.

110. The 2018 PEFA indicates scope for significantly improving the PFM system, while noting that significant progress had been made in selected areas.⁴⁸ In the 2018 PEFA, covering the calendar years 2014 to 2016, 61 percent of the indicators scored D, meaning the performance is below the basic level, while no indicators scored A. The PEFA identifies the lack of budget credibility as the main weakness of Malagasy PFM due to an overestimation of public resources, which often fails to take account of fiscal risks, which include unforeseen costs due to cyclones and droughts. Moreover, the report highlights the need to improve the audit and control functions. On the positive side (B scored), the assessment recognizes the results from reforms in debt management, budgetary process, multi-year budget programing, and access to information by the legislature and the public, some of which benefitted from World Bank support. The quality of the PFM has remained steady since the latest PEFA with the World Bank Country Performance and Institutional Assessment scores on the public sector management and its sub-components remaining constant between 2016 and 2018.

111. The legal and regulatory framework for several areas of PFM has been updated and budget transparency improved. The update of the legal framework relates to public debt (2014), Public Private Partnership (2016), corruption (2016) and public procurement (2017). The law on debt and PPPs, and the

⁴⁸ The latest PEFA has been conducted in 2018.



texts on public investment are being fully implemented. The reform of the legal framework for corruption has empowered the anti-corruption agency which has been more active since 2017, and cases of diversion of public funds by high officials have been subject to investigation and punished. According to the 2018 PEFA, the new Public Procurement Code still leaves a large margin for less competitive procurement practices. Since 2017, consultations for budget formulation have been extended to Civil Society and private sector association. The budget law is published on the MEF website following submission to parliament while the approved budget is published following the confirmation of compliance with the Constitution by the High Constitutional Court. The Resilience DPO (P153084) supported the timely publication of Quarterly Budget Execution Reports and the annual consolidated accounts. The Supreme Audit Institution (*Cour des Comptes*) has started to regularly publish audited financial accounts in 2016, its first report covering the year 2014. The latest publication covering 2017 has been the first report validated by the Parliament within the timeframe allowed by the law.

112. Progress has been made in strengthening the safeguards framework at the Central Bank of Madagascar (CBM). The CBM continues to implement the recommendations of the July 2018 safeguards monitoring report. Work is proceeding as planned on the transition to International Financial Reporting Standards (IFRS) with the full adoption of IFRS scheduled for the 2020 accounts. In addition, external audits of financial statements continue to be timely and the FY 2018 financial statements are published. The Central Bank operates a flexible exchange rate regime and implements targeted interventions to smooth seasonal fluctuations on the foreign exchange market. These small interventions are consistent with Madagascar's flexible exchange rate policy and based on an automatic algorithm developed with an assistance from the IMF. The flexibility of the exchange rate has helped preserve international reserves and external balance.

113. The World Bank is working with other partners to provide coordinated TA. The Public Sector Performance Project (P150116) is helping to advance improvements in revenue management, improved controls by the Court of Account and at the local level, and performance monitoring. In collaboration with the African Development Bank (AfDB) and the EU, it is helping to build capacity at the Court of Account with focus on strengthening financial audits methodology to conform with International Standards of Supreme Audit Institutions, performance audits, and forensic investigation. The IMF's TA Center for Southern Africa has a substantial TA program covering Public Investment Management (through coordinated support with the World Bank), fiscal risks management, and cash and arrears management. The United States Treasury has seconded an advisor to support Treasury Single Account reforms. The AfDB and the EU are supporting civil service reforms. The EU and the IMF are also engaged in medium-term budget reforms.

114. The proposed grant and credit will be disbursed following the standard IDA procedures for DPFs. A grant in the amount of SDR 63.2 million (US\$87.0 million equivalent) and a credit in the amount of SDR 9.5 million (US\$13.0 million equivalent) will be made available upon effectiveness and, provided IDA is satisfied with the implementation of the DPF program and the appropriateness of the Recipient's macroeconomic policy framework, disbursed as a single tranche following the submission of an acceptable withdrawal application by the Government. IDA will disburse the proceeds into the treasury US dollar-denominated account designated by the Recipient that is part of the country's foreign exchange reserves account at the CBM. The dedicated account will be used exclusively for the proceeds of the DPF grant and credit. The Recipient shall ensure that upon the deposit of the grant proceeds into said account, an



equivalent amount is credited in the Recipient's budget management system, in a manner acceptable to IDA. The Recipient will report to IDA on the amounts deposited in the foreign-currency account and credited to the budget-management system within 30 days of the disbursement.

115. The financial support provided under this operation is not intended to finance goods or services on the standard negative list. If the proceeds of the grant and credit are used for ineligible purposes as defined in the Financing Agreement, IDA will require the Recipient, promptly upon notice from IDA, to refund an amount equal to the ineligible expenditure. Amounts refunded to IDA upon such request shall be cancelled. At the request of the Association, an audit of the dedicated account could be carried out by the Recipient and the result of such audit will be furnished to the Association within four months of the request. Considering the limited capacity of the Supreme Audit Institution (*Cour des Comptes*), a legally registered, private and independent audit company meeting appropriate international standards will be contracted to perform the audit, in accordance with the Terms of Reference agreed upon with the Association. All audit costs will be borne by the GoM.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

116. The implementation and results of the DPF series will be monitored and evaluated through a number of concomitant mechanisms. For monitoring DPF results, the system will mainly rely on administrative data from line Ministries. There are some expected challenges around accuracy, completeness and timeliness of data. This is particularly true for the health sector where data collection tools are unreliable, software are still in Beta versions, and capacity of the M&E team is limited. To mitigate these risks, administrative data from line ministries will be complemented with other data collected to monitor specific indicators, as well as through TA provided through investment operations (most notably PARN and PAEB) to support national monitoring systems. Evaluations will be required at some critical stages of the DPF process, to assess the feasibility of prior actions and indicative triggers and to evaluate their effectiveness. For example, in the Education sector, the suggestion to introduce quality control filters to enter the teaching profession requires an impact evaluation that will determine whether the enforcement of those filters is worth scaling up. An impact evaluation using a Randomized Control Trial (RCT) is currently underway to estimate the impact of these policy changes. TA in this as well as other areas will also support evaluations and will strengthen the Government's capacity.

117. Grievance Redress. 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 WB'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 WB'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.



6. SUMMARY OF RISKS AND MITIGATION

118. The overall risk rating for this operation is substantial. The main areas of concern with regards to achieving the development objective relate to political and governance risks, technical design and stakeholder risks, fiduciary and safeguards weaknesses, and limitations on the government's institutional capacity to see the reforms through to their full implementation.

119. The Politics and overnance risk is substantial. Madagascar recently concluded both Presidential and Parliamentary elections. Both were broadly recognized by international observers as fair and transparent. With regards to the Presidential election, this marked the first time in the country's history that a period of economic growth has not been thwarted by a political crisis. President Rajoelina's Government has signaled its commitment to maintaining reform momentum and to boosting the country's human capital stock. However, personnel changes at the technical level influenced by political changes could undermine continuity of the reform process, particularly for reforms that are politically more difficult. The team will continue to support government champions to maintain political consensus around the reform agenda, including through sector specific communications strategies.

120. Macroeconomic risks are moderate. Macroeconomic risks are closely related to the management of fiscal risks amid prospects of rising government deficits, low domestic revenue mobilization, and the possibility of growing contingent liabilities. This lack of fiscal space could significantly constrain government's ability to respond to unexpected shocks, such as a sudden deterioration in terms of trade or severe natural disasters. Regarding the impact of this operation, the automatic absorption of community teachers into the civil service wage bill without any consideration of merit could contribute to increase current expenditures with no corresponding impact on learning outcomes. Additional teachers would also serve to place pressure on the civil service pension fund, which is currently in deficit and would benefit from parametric reforms.⁴⁹ Proposed reforms supported through this operation would help mitigate these risks, placing the importance of learning and health outcomes at the center of the policy dialogue with the new government. Over the long-term, under-investment in human capital could result in missed economic opportunities and an inability to reduce extreme poverty and ensure prosperity in the face of a rapidly growing population.

121. The Sector Strategies and Policies risk is moderate. There are sound sectoral strategies across the reform areas proposed, including for education, health, and social protection. On the governance side, several plans are currently being carried out to improve the country's overall PFM. The main element that poses a risk is the possibility that the new government backtrack from its commitment to these strategies. This is being mitigated through close policy dialogue on these questions.

122. The Technical Design and Reform risk is substantial. The selected areas for reform are notoriously complex. There are several inter-dependent policies in the education sector that require careful balancing, as tweaking one part of the system inevitably impacts on other parts. This is exacerbated by the highly political nature of the reforms in question. Calibrating the pace of change, and ensuring timely, frequent,

⁴⁹ Reforms to Civil Service Pension Fund were supported in the Public Finance Sustainability and Investment DPO (P164137) in 2016 and 2017.



and nuanced communication around the reforms is of great importance. This is mitigated through extensive technical consultations with a variety of experts to triangulate information (especially where data is scarce), trouble-shoot potential perverse effects, and stress test nascent policy suggestions prior to their scaling, or even their introduction.

123. The Institutional Capacity for Implementation and Sustainability risk is substantial. With regards to the reforms around teacher standards and recruitment policies, the capacity for further developing these policy areas, and ensuring their faithful application, is low. This is mainly mitigated through the provision of TA (in the case of the former), and by embracing an approach of gradual scale-up (for the latter). The other notable area for institutional capacity risks is related to the communes, where the reforms entrust added responsibilities relating to transfers to CSBs. This is mitigated through careful (but simple) operational manuals. Several operations in the investment portfolio are also supporting these reforms, hence mitigating this risk.

124. The Fiduciary risk is substantial. This risk generally pertains to low financial management capacity at the local level, where communes are expected to play a larger role in managing resources. This has been mitigated through the professionalization of the public accountants operating in the communes. Aside from having these accountants be named by the MEF (instead of locally appointed by mayors), a second signing authority (representing clinics) on the local accounts has been added. Procedures also require some social accountability on the part of CSBs, through the regular publishing/posting of their receipts and expenditures (in Malagasy). Fiduciary risk is also augmented by the limited access of line ministries to SIGFP data, exacerbating inefficiencies in procurement, planning and expenditure controls. This risk is mitigated through the reforms advanced through prior action 7.

125. The Environmental and Social risk is substantial. Madagascar's high level of vulnerability to risks from climate change have direct effects on fiscal policy and on financing of social sectors. The SCD highlights overall governance challenges and institutional weaknesses for managing environment and social risks. Complementary World Bank operations have worked to enhance environmental and social safeguards management capacity, including the Disaster Risk Management DPO (P167941), and other human development operations highlighted in Table 5 above. A poverty and social analysis also indicated mitigation measures through technical design aspects, such as ensuring that equity considerations drive some of the algorithms behind transparent recruitment procedures in education and health sectors.

126. The Stakeholders risk is substantial. Some major stakeholders stand to benefit from the reform program, such as teachers and their unions (through improved conditions and status), civil society organizations (through greater access to information and participation in budgetary processes), decentralized actors (such as those operating at the commune level), and front-line services providers (as in the case of the staff of health clinics). However, there may be some insiders at the central or meso level of the system that will have a perceived or actual loss in influence, due to the greater efficiency and transparency of processes, both in terms of human resources and PFM. Stakeholders risk can also be impacted as higher quality standards for teachers and health training institutions exclude some from the system and market. To mitigate these risks, this reform program will build around a multi-agent leadership approach, working closely with policy influencers in and outside of government across education, health, decentralization, social protection, child protection, and women's empowerment, to ensure reform coalitions are strengthened and maintained.



127. An additional identified set of risks rated as substantial relate to the implementation of the GBV law. These risks include potential misapplication of or failure to apply the law’s criminal sanctions, failure to uphold due process rights of alleged offenders, and inadequate protection of victims, due to prevalent gender-based discrimination, weaknesses in upholding due process rights in Madagascar, and lack of resources and capacity for criminal justice institutions generally. These risks will be mitigated through: (i) continued dialogue through this DPF on how the National Policy on Gender Equality and related community outreach (indicative triggers for Prior Action 9) can effectively support guarantees for legal protections; and (ii) involvement of relevant government stakeholders, civil society, and partners working on reforms in the justice system, to monitor and strengthen the application of the GBV law and prevent its misuse.

Table 6: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	● Substantial
2. Macroeconomic	● Moderate
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Substantial
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Substantial
7. Environment and Social	● Substantial
8. Stakeholders	● Substantial
9. Other	● Substantial
Overall	● Substantial



ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions and Triggers		Results		
Prior Actions under DPF 1	Triggers for DPF 2	Indicator Name	Baseline	Target
Pillar 1---Better qualified, distributed, and performing human resources in education and health sectors				
<p>Prior Action #1. To improve the quality of the Malagasy teaching workforce, the MENETP, MTEFPLS and MEF have established the national teaching career and teacher skills requirements pursuant to <i>Arrêté interministériel n° 26 479/2019/MEF/MTEFPLS/MENETP Fixant le référentiel métier et compétences de l'enseignant de l'éducation nationale à Madagascar</i>, dated 21 November 2019 and published in the <i>Journal Officiel</i> of the Recipient on 17 February 2020.</p>	<p>(Indicative) Trigger #1. Approval of the National Teacher Career by Decree of the Council of Ministers.</p>	<p>Results Indicator #1: Percentage of teachers registered in AUGURE that are classified as per the positions laid out in the approved Teacher Performance Standards.</p>	<p>N/A</p>	<p>At least 35% (2021)</p>
<p>Prior Action #2. To expand the application of quality control measures for the recruitment of community teachers, MENETP has expanded the piloting of new procedures and qualifications for the hiring of non-civil service teachers (Enseignants non fonctionnaires) in primary schools by FRAM to eight additional CISCOS (i.e., Ambalavao; Manakara; Toliara II, Brickaville, Antsiranana II, Befandriana nord; Ambohidratrimo; and Antanifotsy) starting from the 2019-2020 school year, pursuant to <i>Note n°8056 Mise en oeuvre expérimentale d'une politique de rationalisation de l'embauche des Enseignants non</i></p>	<p>(Indicative) Trigger #2. Adoption of merit-based promotion procedures for contract teachers by Ministerial Circular.</p>	<p>Results Indicator #2: Number of teachers recruited, and contracts awarded according to new recruitment procedures/issuance of contracts.</p>	<p>800 (2018)</p>	<p>Over 10,000 (2021)</p>



Prior actions and Triggers		Results		
Prior Actions under DPF 1	Triggers for DPF 2	Indicator Name	Baseline	Target
<i>Fonctionnaires au niveau de certaines circonscriptions scolaires, dated 7 November 2019, issued to the Secretary General, the Director of cabinet, all Central Directors, the relevant Regional Directors of National Education and Technical Teaching, the Heads of the relevant CISCOS (each for execution and monitoring) and FRAM (for informational purposes).</i>				
Prior Action #3. To improve quality control of institutions providing training for workers in the health sector, the Ministry of Public Health has created a health training institute inspection and quality control commission (<i>Commission d'Inspection et de Contrôle des Normes des Etablissements de Formation en Santé</i>) and established its organization and functions, pursuant to <i>Arrêté N° 4570/2020-MSANP portant creation, organization et fonctionnement d'une Commission d'Inspection et de Contrôle des Normes des Etablissements de Formation en Santé</i> , dated 19 February 2020 and published in the <i>Journal Officiel</i> of the Recipient on 19 February 2020.	(Indicative) Trigger #3. The action plan from the independent audit on health training institutes has been presented and validated by Government Council.	Results Indicator #3: Proportion of paramedical graduates from private institutions that passed the public service entrance examination.	64% (2018) ⁵⁰	At least 80% (2021) ⁵¹
Prior Action #4. To allow for systematic counting of all public education and health professionals and rationalization of the	(Indicative) Trigger #4. Publication of the results of the census results for all employees in the education and health sectors.	Results Indicator #4: Percentage of schools and CSBs that meet sectoral human resources standards,	0 (2019)	50% (2021)

⁵⁰ Percentage of candidates who passed the test in 2018.

⁵¹ This figure must be based on the number of posts filled (retired + new posts created).



Prior actions and Triggers		Results		
Prior Actions under DPF 1	Triggers for DPF 2	Indicator Name	Baseline	Target
distribution of human resources throughout the civil service, the Prime Minister, Head of Government has obligated all institutions and ministries, decentralized territorial collectivities (<i>Collectivités Territoriales Décentralisées</i>), and public institutions and bodies (<i>Etablissements et Organismes publics</i>) to use AUGURE and the nomenclature of positions validated by the ministry in charge of civil service for the management of their personnel, pursuant to <i>Decret N°2019-1 446 Portant institutionnalisation et mise en oeuvre de l'Application Unique pour la gestion Uniforme des Ressources humaines de l'Etat dénommée «AUGURE»</i> , dated 7 August 2019 and published in the <i>Journal Officiel</i> of the Recipient on 17 February 2020.	Changing the legal and regulatory framework to allow the attachment of budget items to service centers (as opposed to individuals).	according to AUGURE.		
Pillar 2---More transparent and predictable investments in human capital				
<p>Prior Action #5. To support the expansion of the three priority SSN programs in Madagascar (i.e., TMDH, ACTP and FIAVOTA) (the "Priority SSN Programs"):</p> <p>(a) the MEF and the FID have entered into a <i>Protocole d'Accord</i> dated 24 January 2020 pursuant to which, among other things, the MEF has agreed (i) to make available to the FID, in the 2020 RPI budget line of the MEF, non-reimbursable funds in an amount equal to 6,000,000,000 Ariary and (ii) that for the</p>	(Indicative) Trigger #5. The Recipient has established a Commitment Authorization of Payment Credit (AECF) in a budget line for the three priority SSN Programs in the 2021 draft budget law and MTEF.	<p>Results Indicator # 5.1: Total minimum amount disbursed annually to the FID budget line for priority SSNs and MPSPPF budget line for social protection policy management, monitoring and evaluation from domestic public financing.</p> <p>Results Indicator # 5.2: Number of households covered by the priority social nets from domestic public financing.</p>	<p>0 (2019)</p> <p>US\$2.56 million (2019)</p> <p>0 (2019)</p>	<p>Over US\$5 million (2021)</p> <p>At least US\$2.56 million (2021)</p> <p>Over 30,000 (2021)</p>



Prior actions and Triggers		Results		
Prior Actions under DPF 1	Triggers for DPF 2	Indicator Name	Baseline	Target
<p>years 2021, 2022 and 2023, an RPI budget line is included in the budget law under the budget of the Prime Minister in a minimum amount of at least 18,000,000,000 Ariary (i.e., the equivalent of US\$ 5,000,000) per year to finance activities under the Priority SSN Programs for the benefit of 30,000 additional households, and that such funds for the relevant year will be mobilized upon publication of the relevant budget execution decree, and released to the FID's dedicated account in Ariary in a single lump sum on the basis of a release request letter with a program for the utilization of such funds from FID; and</p> <p>(b) the Ministry of Population, Social Protection and Promotion of Women (Ministère de la Population, de la Protection Sociale et de la Promotion de la Femme) has validated a manual for the coordination and use of funds allocated to all SSN actions carried out by various stakeholders, including the Priority SSN Programs pursuant to <i>Arrêté N°3 973/20/MPPSPF Portant validation du Manuel de Procédure de coordination et d'utilisation des fonds alloués Programmes de Filets Sociaux de Sécurité à Madagascar</i>, dated 13 February 2020 and published in the <i>Journal Officiel</i> of the Recipient on 17 February 2020..</p>				



Prior actions and Triggers		Results		
Prior Actions under DPF 1	Triggers for DPF 2	Indicator Name	Baseline	Target
<p>Prior Action #6. To facilitate channeling financing to public primary healthcare centers (<i>Centres de Santé de Base</i>) (“CSBs”) for community health programs and improve related decentralized public financial management and budget execution at the commune level, the Prime Minister, Head of Government has established rules relating to the management of budget allocations by the Ministry of Public Health to CSBs for community health programs, including, inter alia, provisions for the direct transfer of such CSB allocations to dedicated sub-accounts within the relevant communes’ existing treasury accounts, and for expenses to be executed in accordance with a CSB allocations procedures manual to be elaborated by the Ministry in charge of Health and integrated within commune budget procedures, pursuant to <i>Decret N°2019-2 117 portant mécanisme de gestion de credits destines aux Centres de Santé de Base du Ministère de la Santé Publique dénommé « Dotation CSB »</i>, dated 20 November 2019 and published in the <i>Journal Officiel</i> of the Recipient on 17 February 2020.</p>	<p>(Indicative) Trigger #6. Update of the MTEF to integrate additional resources for local level (CSBs and district health doctors) and their reflection in the budget law</p>	<p>Results Indicator # 6: Percentage of budget law allocations to CSB disbursed by Communes for health facilities</p>	<p>0 (2019)</p>	<p>At least 85% (2021)</p>
<p>Prior Action #7. To enhance transparency, oversight and accountability of budget processes and improve the efficiency of budgetary allocation and spending, the Prime Minister, Head of Government has</p>	<p>(Indicative) Trigger #7. Following parliamentary approval of the Open Data Bill, issuance of implementation decree by the Council of Ministers.</p>	<p>Results indicator #7: Percentage of budget expenditures made in the social sectors according to the</p>	<p>34.7%</p>	<p>At least 35% (2021)</p>



Prior actions and Triggers		Results		
Prior Actions under DPF 1	Triggers for DPF 2	Indicator Name	Baseline	Target
<p>established rules and principles of access to and use of data related to the budgeting of public entities, based on payments and cash, in revenues and in expenditures, in a format compliant with open data principles, applicable to users of (a) the Public Treasury Information System (SIT), the interface that permits collection or receipt of data from data providers and (b) the Public Treasury's Open Data Portal (<i>Portail des données ouvertes du Trésor</i>), a web-based platform through which the public may access the Treasury's open data relating to budget execution, pursuant to <i>Decret n° 2019-2 136 portant accès aux données « base Paiement et Encaissement » relatives à l'exécution budgétaire des Organismes Publics</i>, dated 26 November 2019 and published in the <i>Journal Officiel</i> of the Recipient on 17 February 2020.</p>		<p>programmatic classification.⁵²</p>	<p>⁵³(2019)</p>	
<p>Prior Action #8. To reinforce the capacity to transparently evaluate the efficiency of tax expenditures with a view to optimizing tax revenues, the MEF has established the framework for periodic evaluation of the efficacy of tax and customs exemptions and other preferential tax regimes, including the division of responsibilities, the sharing of</p>	<p>(Indicative) Trigger #8. Adoption of a decree mandating that all new tax exemptions be subjected to a cost-benefit analysis by the MEF, presenting: i) the socio-economic objectives, and ii) the results indicators. The results of these analyses will be published in the finance law.</p>	<p>Results indicator #8: Reduction of the amount of tax exemptions as a proportion of overall fiscal revenues.</p>	<p>23% (2018)</p>	<p>At most 15% (2021)</p>

⁵² Numerator = MENETP Programs, Ministry of Health, and Ministry of Population, Social Protection, and Women's Affairs.

⁵³ denominator = All expenses executed from internal financing



Prior actions and Triggers		Results		
Prior Actions under DPF 1	Triggers for DPF 2	Indicator Name	Baseline	Target
information, and the methodologies with the view of achieving the socio-economic objectives of fiscal spending, pursuant to <i>Circulaire n° 230 ISP_SG (Objet: Modalités d'évaluation périodique des dépenses fiscales)</i> , dated 22 November 2019, issued by the MEF.				
Pillar 3--- Stronger legal frameworks for the protection of women and children				
Prior Action #9. To strengthen the legal regime for the prevention and prosecution of acts of GBV and the protection of victims of GBV, Parliament has enacted a law relating to combatting GBV: <i>Loi N° 2019-008 relative à la Lutte contre les Violences Basées sur le Genre</i> , promulgated 16 January 2020 and published in the <i>Journal Officiel</i> of the Recipient on 17 February 2020.	(Indicative) Trigger #9. Adoption of the National Policy on Gender Equality and Child Protection. Operational manual for the community outreach campaigns, including the model pledge to be signed by communities to combat child marriage.	Results indicator #9: Number of communities (<i>fokontany</i>) that have signed the pledge to combat child marriage.	0 (2019)	Over 1,000 (2021)



ANNEX 2: IMF RELATIONS ANNEX

IMF Executive Board Completes Sixth Review Under the Extended Credit Facility (ECF) for the Republic of Madagascar and Concludes 2019 Article IV Consultation

January 30, 2020

On January 29, 2020, the Executive Board of the International Monetary Fund completed the sixth review under the ECF arrangement for Madagascar and the 2019 Article IV consultation. The completion of this review enables the disbursement of SDR 31.43 million (about US\$43.2 million), bringing total disbursements under the arrangement to SDR 250.55 million (about US\$344.5 million).

Madagascar's 40 month-ECF arrangement to support the country's efforts to reinforce macroeconomic stability and boost sustained and inclusive growth, was approved on July 27, 2016 (see Press Release No.16/370) for SDR 220 million (about US\$305 million, or 90 percent of Madagascar's quota). Additional access of 12.5 percent of Madagascar's quota was approved by the Executive Board in June 28, 2017, bringing access to SDR250.55 million (about US\$347 million) at that time. The Executive Board approved, in November 4, 2019, the authorities' request for a three-month Extension of the ECF arrangement to February 26, 2020, to allow time to conclude the discussions to complete the 6th and last review.

Following the Executive Board discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

"Madagascar's performance under its economic program supported by the Extended Credit Facility (ECF) arrangement has been broadly satisfactory with solid growth, moderate single-digit inflation, and a robust external position. Going forward, a commitment to strong policies and an ambitious agenda to complete outstanding structural reforms remains crucial to mitigate internal and external risks, strengthen macroeconomic stability, and achieve higher, sustainable, and inclusive growth.

"The authorities' economic reform agenda summarized in the Plan Emergence Madagascar aims to raise economic growth through increased public and private investment, strengthening human capital, and improving governance. Creating additional fiscal space by further improving revenue mobilization through a medium-term tax revenue strategy, containing lower-priority spending, and enhancing investment implementation capacity is essential for scaling-up priority investment and social spending in education, health, and housing.

"Resolute actions are needed to contain risks to macroeconomic stability and debt sustainability, including reducing fiscal risks from the financial situation of the public utility JIRAMA and containing liabilities to fuel distributors. On the latter, the implementation of an automatic fuel pricing mechanism to avoid budget costs must be accompanied by mitigating measures to limit impact on the poorest, including by the on-going scaling up of social safety net programs.

"Effective and impartial enforcement of the new anti-corruption legal framework, now closer to international standards, is needed to improve the business climate and attract private investment. Continued progress to further strengthen public financial management is necessary to improve the



governance of public resources. Measures to increase resilience to natural disasters also need to be prioritized.

“The authorities’ ongoing reform agenda should continue to benefit from continued IMF engagement, including technical assistance.”

The Executive Board also concluded the 2019 Article IV Consultation⁵⁴ with the Republic of Madagascar.

Madagascar is a low-income country facing important challenges to overcome fragilities, strengthen inclusive growth, and address long-standing development needs. Progress in macro-economic performance and structural agenda during the recent years has been supported by the 2016 ECF arrangement. After a smooth transition of power following the Presidential elections, and the conclusion of the Parliamentary elections in end-May economic developments have remained favorable with sustained growth, contained inflation, and sustainable fiscal and external positions.

The medium-term economic outlook remains favorable, with growth expected to gradually increase to about 5.5 percent, supported by public investment scaling-up and good prospects for private investment. The outlook remains subject to risks, however, associated with social fragility, materialization of fiscal risks, and vulnerability to exogenous shocks including to terms of trade and natural disasters.

In this context, renewed efforts and impetus for reforms, in line with the government’s ambitious development strategy formalized in its Plan Emergence Madagascar, are needed to create fiscal space to finance investment and raise social spending; strengthen monetary and exchange rate policy effectiveness; improve financial sector development and resilience; and promote better governance and an improved business climate.

Executive Board Assessment⁵⁵

Executive Directors welcomed the broadly satisfactory implementation of the economic reform program and peaceful political transition followed by solid macroeconomic performance. However, they regretted the slowdown in progress on structural reforms and continued underperformance on priority social spending. In light of Madagascar’s long-standing challenges of high poverty, stagnant per capita income and vulnerability to natural disasters, Directors emphasized the need for further efforts to bring Madagascar onto a path of sustainable and inclusive growth. In this regard, they welcomed the authorities’ ambitious development agenda summarized in the Plan Emergence Madagascar and their commitment to strengthen macroeconomic stability and debt sustainability and implement outstanding

⁵⁴ Under Article IV of the IMF’s Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country’s economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

⁵⁵ At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country’s authorities. An explanation of any qualifiers used in summings up can be found here: .



reforms. Directors noted that enhanced capacity development will be essential to support the authorities' objectives and welcomed the intention to start discussions on a successor arrangement.

Directors emphasized that fiscal policy should remain focused on efforts to create fiscal space to allow for scaling up of priority social and investment spending, notably in education, health and housing. In this context, they encouraged the authorities to continue their efforts to improve revenue mobilization through credible medium-term tax revenue mobilization plans, containment of lower-priority spending, and enhancement of the investment implementation capacity. To contain risks to macroeconomic stability and debt sustainability, Directors called for reducing transfers to the public utility company JIRAMA and finalizing and implementing its medium-term recovery plan, improving the sustainability of the civil servant pension fund, and containing liabilities to fuel distributors. They also encouraged the authorities to adopt the planned fuel pricing mechanism without further delays, while putting in place mitigating measures and social safety nets to limit the impact on the poorest.

Directors welcomed continued progress in improving the monetary framework and strengthening the financial sector. They called for continued efforts to improve foreign exchange market operations and gradually phase out the surrender requirement on export proceeds, as well as further steps to strengthen the bank supervisory framework. They encouraged the authorities to implement the new banking and financial stability laws, and to continue their efforts to improve financial inclusion.

Directors welcomed progress on governance reforms and the anti-corruption legal framework, and they urged its effective and impartial enforcement in order to strengthen the business climate and attract private investment. Directors also called for continued efforts to strengthen public financial management and for prioritizing measures to increase resilience to natural disasters.

Table 1. Selected Economic Indicators, 2017–2021

	2017	2018	2019	2020	2021
	Est.		Proj.		
National account and prices (percent change, unless otherwise indicated)					
GDP at constant prices	3.9	4.6	4.8	5.2	5.4
GDP deflator	8.6	8.6	5.9	7.2	6.5
Consumer prices (end of period)	10.6	6.9	6.0	6.2	5.9

**Money and credit**

Broad money (M3)	17.8	11.2	12.3	16.2	14.9
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(Growth in percent of beginning of period money stock (M3))

Net foreign assets	9.2	4.8	0.3	6.9	7.6
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Net domestic assets	8.6	6.4	12.0	9.3	7.2
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of which: Credit to the private sector	8.4	8.7	9.0	7.3	5.8
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(percent of GDP)

Public finance

Total revenue (excluding grants)	10.3	10.5	10.6	11.2	11.7
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of which: Tax revenue	10.0	10.2	10.4	10.9	11.3
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Grants	2.5	2.5	2.4	2.5	1.4
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of which: budget grants	0.7	0.9	0.8	0.7	0.0
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Total expenditures	14.9	14.3	14.4	16.4	17.3
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Current expenditure	10.2	9.3	9.3	8.9	8.9
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Capital expenditure	4.7	5.0	5.0	7.6	8.3
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Overall balance (commitment basis)	-2.1	-1.3	-1.4	-2.7	-4.2
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Domestic primary balance ¹	-0.9	0.1	0.3	0.0	0.3
Total financing	2.0	2.0	1.7	2.7	3.8
Foreign borrowing (net)	1.2	1.5	1.2	2.2	3.3
Domestic financing	0.8	0.5	0.5	0.5	0.4
Financing gap	0.0	0.0	0.0	0.0	-0.5
Savings and investment					
Investment	18.1	18.8	19.1	22.0	23.0
Gross national savings	15.4	20.3	19.0	20.5	21.5
External sector					
Exports of goods, f.o.b.	21.3	21.9	19.5	19.0	20.1
Imports of goods, c.i.f.	27.4	27.6	26.6	27.0	27.3
Current account balance (exc. grants)	-2.9	-1.9	-2.6	-4.0	-2.9
Current account balance (inc. grants)	-0.4	0.7	-0.1	-1.5	-1.5
Public debt	40.0	39.9	40.1	39.8	40.8
External Public Debt	25.7	26.7	27.2	27.6	29.1
Domestic Public Debt	14.4	13.2	12.8	12.2	11.6



(Units as indicated)

Gross official reserves (millions of SDRs)	1086	1221	1238	1390	1552
Months of imports of goods and services	4.0	4.3	4.3	4.4	4.5
GDP per capita (U.S. dollars)	516	528	525	557	588

Sources: Malagasy authorities, World Bank staff (October 2019)

¹ Primary balance excl. foreign-financed investment and grants. Commitment basis.



ANNEX 3: LETTER OF DEVELOPMENT POLICY



**MINISTRE DE L'ECONOMIE ET
DES FINANCES**

Antananarivo, le 19 FEV. 2020

Le Ministre

**Monsieur David Malpass
Président du Groupe de la Banque
Mondiale
1818 H Street NW
Washington DC**

Monsieur le Président,

La Politique Générale de l'Etat (PGE) présenté par le Gouvernement a pour objectif principal de rattraper le retard de développement accumulé depuis plus de 50 ans. Le Gouvernement est en train de finaliser le Plan Emergence Madagascar (PEM) 2019-2023 qui fixe le cadre global de planification nationale et définit les actions et programmes prioritaires pour concrétiser les engagements du Président de la République.

La présente lettre de politique de développement témoigne de la volonté du gouvernement à relever les défis pour renforcer les investissements dans le capital humain. Dans ce cadre, quatre programmes de réforme sont initiés, à savoir (i) l'amélioration de la gestion des ressources humaines dans les secteurs de la santé et de l'éducation, (ii) les réformes de la gestion financière pour améliorer la prévisibilité, l'efficacité, et la transparence budgétaire, (iii) le renforcement des filets sociaux de sécurité et (iv) la protection de la femme et de l'enfant. Ces actions s'inscrivent dans l'objectif de réduction de la pauvreté à Madagascar. En outre, le présent programme de réformes s'inscrit dans un cadre global du programme du gouvernement et complète les engagements existants dans le cadre des opérations avec la Banque mondiale. Celles-ci incluent les réformes engagées dans le cadre de précédents appuis budgétaires, dont leur poursuite est essentielle à la crédibilité du présent programme.

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En 2019, la croissance économique reste stable, avec un taux de croissance estimé à 5.2%. Cette performance est tirée notamment du secteur secondaire qui prévoit un taux de croissance de 7.5% sur l'année. Le renforcement des investissements dans le secteur énergie ainsi que le développement des zones franches d'exportation en sont les principales causes. Le secteur tertiaire, principal moteur de la croissance, enregistre une croissance de 5.1% résultant de la réalisation des divers projets d'infrastructures répondant aux objectifs de l'émergence. Au niveau du secteur



primaire, malgré les conditions climatiques favorables pour la production rizicole, la croissance des activités du secteur primaire a ralenti pour atteindre 2.8% en moyenne en 2019. En effet, les exportations des principales cultures de rente et des produits de la pêche ont connu un ralentissement au cours du premier semestre.

L'inflation en glissement annuel est contenue à 6,8 % en 2019 (en fin période) grâce à la mise en œuvre d'une politique monétaire prudente.

Au niveau des finances publiques, le gouvernement poursuit ses efforts de mobilisation des recettes et de renforcement de la gestion des dépenses. Le taux de pression fiscale est estimé à 10,7% en 2019. L'objectif étant d'augmenter ce taux de 0,5 point par an. Du côté des dépenses, une hausse des investissements publics est prévue, avec un taux estimé à 7,4% du PIB en 2019 contre 5,3% en 2018. Les dépenses dans les secteurs sociaux sont prioritaires, en l'occurrence l'accès aux services de santé de base, l'éducation, l'eau potable, la lutte contre la malnutrition.

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Les perspectives économiques restent optimistes avec une croissance économique estimée à 5,5% en 2020. Cet objectif est conforme avec la politique de l'émergence du gouvernement. La construction des infrastructures essentielles, telles que les routes, les réseaux ferroviaires, l'énergie, les BTP en sont les principaux moteurs. Le secteur tertiaire enregistrera ainsi un taux de croissance de 5,2%. Pour le secteur primaire, une croissance de 4,6% est attendue avec l'instauration de la sécurité rurale et l'extension des surfaces cultivables. Quant au secteur secondaire, une croissance de 7,4% est prévue et due notamment à l'évolution positive de la branche alimentaire, boisson, tabac, textile.

L'inflation devrait se stabiliser à 6,2% en 2020 (en fin de période) grâce aux mesures prudentes prise par le gouvernement, et aux actions de Banky Foiben'i Madagasikara (BFM) sur la gestion des liquidités monétaires.

Au niveau des Finances publiques, le Gouvernement continue la mise en œuvre de la Stratégie de Modernisation de la Gestion des Finances Publiques. Les réformes ont été accélérées afin de garantir la mobilisation accrue de recettes et l'efficacité des affectations des deniers publics. La politique budgétaire vise la création de plus d'espace budgétaire tout en améliorant la qualité des dépenses. En matière de recettes, la mise en œuvre des plans d'action pour les administrations fiscales et douanière améliorera la perception des recettes. Il s'agit notamment de l'amélioration de la gestion de la TVA, du renforcement du contrôle et de la lutte contre les infractions et délits fiscaux. Une attention particulière sera accordée au suivi et analyse des dépenses fiscales. Pour l'année 2020, l'ambition du gouvernement est d'augmenter le taux de pression fiscale de 0,8 points par rapport à 2019. Ainsi, ce taux sera de 11,5% du PIB. Concernant les dépenses, elles sont orientées vers une politique de relance en renforçant les dépenses d'investissement. L'objectif consiste à améliorer le bien-être de la population en priorisant les dépenses dans le secteur des infrastructures, dans le domaine social et dans la sécurité. A cette fin, les dépenses en capital seront prévues à 8.7% du PIB pour l'année 2020.

Madagascar continue de mettre en œuvre son programme de réforme macroéconomique, appuyé par la Facilité Elargie de Crédit (FEC) du FMI, qui est actuellement arrivé à son terme. Le



Gouvernement prévoit de poursuivre les réformes déjà engagées tout en visant la croissance inclusive et durable, et respectant les engagements visés dans la PGE.

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Madagascar est l'un des pays les plus pauvres au monde avec 75 % de la population qui vit avec moins de 1,90 dollar par jour. Son indice de capital humain est également parmi l'un des plus faibles. Madagascar est le quatrième pays au monde où le taux de malnutrition chronique est le plus élevé, avec 42 % des enfants de moins de cinq ans souffrant de retard de croissance. En matière d'éducation, il est estimé qu'environ 1,4 million d'enfants ont quitté l'école primaire et le renforcement de capacité des enseignants est crucial. 95% des plus pauvres ne bénéficient d'aucun mécanisme de protection sociale qui devront être renforcés par la mise en place de filets sociaux de sécurité pour les couches les plus vulnérables. Le Gouvernement, à travers le Plan Emergence Madagascar se donne comme priorité de relever et de réhabiliter les couches vulnérables, par des mesures sociales ayant un impact direct sur le bien-être de la population. Les actions se focalisent entre autres sur la mise en place des services de santé et d'éducation de qualité pour tous, la promotion de la protection sociale, de l'autonomisation des femmes et de la protection des droits des enfants.

Madagascar a connu, au cours de la première décennie 2000, une amélioration de son système éducatif. L'effectif des enfants scolarisés a augmenté, le nombre d'établissements a progressé de 25 % et le taux d'achèvement dans le primaire a atteint 60 %. Cependant, au cours de ces dernières années, cette situation s'est dégradée. La qualité de l'éducation a diminué, se traduisant par une baisse de performances des élèves en classe. 97% des enfants à l'âge de 10 ans n'arrivent pas à lire et comprendre un texte simple. Les enseignants constituent un facteur déterminant de cet apprentissage. Par ailleurs, la majorité des enseignants du primaire n'ont pas de qualification et sont actuellement recrutés et payés par les parents d'élèves afin de combler les postes vacants sans qu'il y ait un filtre de contrôle de qualité.

Afin d'atteindre l'objectif d'éducation de qualité pour tous, le Gouvernement a initié la Politique Enseignante qui prescrit un mode de recrutement et d'attribution de contrats aux enseignants. D'une part, un référentiel métier de l'enseignant de l'éducation nationale est mis en place à travers une note interministérielle signée par les Ministres en charge de la Fonction Publique, de l'Education et de l'Economie et des Finances. Ce référentiel fixe la mission, les activités principales, les compétences et qualifications requises des enseignants. L'objectif étant d'avoir un outil de suivi des activités menées en matière d'enseignement. D'ici 2021, 70% des enseignants seront recrutés selon les postes de ce référentiel. D'autre part, une circulaire ministérielle de l'éducation indique l'adoption d'une nouvelle procédure de recrutement pour les enseignants communautaires non subventionnés dans des CISCOS additionnels, en mettant en place des critères d'équité et de qualification. Le recrutement des 10.000 enseignants dans les prochaines années suivra cette nouvelle procédure.

Dans le domaine de la santé, Madagascar a renforcé ces dernières années ses interventions pour l'amélioration de l'état de santé de la population à travers des actions de santé publique, notamment liées à la santé des groupes vulnérables dont le couple mère-enfant, à la lutte contre les maladies transmissibles et non transmissibles, aux urgences sanitaires et épidémiques. Toutefois, la population est encore insuffisamment protégée. L'offre de services de santé ne donne pas pleine satisfaction. La faiblesse de compétence des ressources humaines en santé, particulièrement au



niveau des services de santé communautaires a été identifiée comme l'une des principales causes.

Suivant la vision du PEM pour le secteur santé, « en 2030, Madagascar aura un système de santé de qualité et accessible à tous permettant à l'ensemble de la population malgache d'être en bonne santé dans un environnement sain, garant d'une vie meilleure et productive ». Le renforcement de la planification, de la gestion et du développement des compétences en ressources humaines en santé est prévu. A cet effet, le gouvernement a créé une commission d'inspection et de contrôle des normes des établissements de formation en santé. Un audit indépendant des institutions de formation privée dans le secteur sera réalisé d'ici l'année 2021 et une feuille de route reprenant ses conclusions mise en œuvre. Une augmentation de la proportion de paramédicaux issus de ces institutions privées reçue au concours d'entrée à la fonction publique sera attendue.

La mise en place du logiciel AUGURE (Application Unique de Gestion Uniforme des Ressources Humaines de l'Etat) s'inscrit dans cet objectif de renforcement et de développement des ressources humaines dans ces deux secteurs sociaux à Madagascar. Cette initiative vise à assurer une gestion financière transparente et une gestion efficiente des ressources humaines de l'Etat. Le Gouvernement a adopté un décret pour permettre l'opérationnalisation de l'AUGURE intégrant les normes sectorielles des effectifs, la solde et la répartition géographique des agents. Un audit du système a été réalisé par la Cour des Comptes dont l'objectif étant de s'assurer si, d'une part, le système gère les effectifs et la solde, en conformité avec les procédures et règles de transparence et, d'autre part, à s'assurer si AUGURE dispose du socle technologique et fonctionnel adaptés. Les recommandations issues de cet audit seront prises en compte dans le plan d'action du gouvernement pur améliorer l'applicatif. L'AUGURE sera désagrégé au plus bas niveau des prestations de services pour permettre l'enregistrement de tous les agents de l'Etat dans les Centres de Santé de Base (CSB) et les écoles.

Dans l'objectif de l'émergence, le gouvernement poursuit ses efforts dans l'amélioration de la qualité des dépenses publiques favorisant essentiellement le développement du capital humain. Les réformes sur la gestion financière seront renforcées pour améliorer la prévisibilité, l'efficacité et la transparence budgétaire. Des mécanismes de priorisation dans l'allocation de ressources, de séquençage des priorités, de choix des modalités de financement des actions publiques, sont mis en place. Les secteurs sociaux sont ainsi priorisés en leur affectant des ressources suffisantes

Concernant le programme de protection sociale à Madagascar, le gouvernement a adopté en 2018, la stratégie nationale de protection sociale 2019-2023. Cette stratégie prescrit la mise en place d'un système pérenne permettant de couvrir les couches les plus vulnérables aux filets sociaux de sécurité prioritaires. Les autorités ont décidé à poursuivre le mécanisme existant en canalisant les fonds correspondants à travers le FID qui assure actuellement la mise en œuvre des filets sociaux de sécurité. A cet effet, ce dernier est doté d'une ligne budgétaire sur financement interne, formalisé à travers le protocole d'accord entre le Ministère de l'Economie et des Finances et le FID. L'objectif étant d'arriver à couvrir 30.000 ménages en 2021. Parallèlement, afin de sécuriser le rôle régalién du MPPSPF, son budget pour la mise en œuvre du programme de protection sociale sera augmenté dans les moyens termes. Ainsi, un manuel stipulant les mécanismes de coordination, d'augmentation des cibles et du financement domestique a été adopté.

Le développement de la santé communautaire figure parmi les attentes du gouvernement. Un mécanisme de gestion des ressources budgétaires destinées aux CSB est en cours de mise en



mariage précoce et inciter les communautés à signer un engagement dans ce sens par le biais des leaders traditionnels.

La mise en œuvre de toutes ces actions permettra au Gouvernement d'atteindre ses objectifs d'émergence afin de bâtir une nation forte prospère et solidaire pour la fierté et le bien-être des Malagasy. Toutefois, la limitation des ressources conduit le Gouvernement à solliciter l'appui financier de la Banque Mondiale. Cette opération d'appui budgétaire permettra ainsi d'appuyer ses efforts pour lutter contre la pauvreté, et les différentes actions prévues dans le cadre de cet appui, au travers l'adoption d'une série de textes réglementaires, montrent sa volonté de renforcer les investissements dans le capital humain.

LE MINISTRE DE L'ECONOMIE ET DES FINANCES



Richard

RANDRIAMANDRATO Richard



ENGLISH TRANSLATION OF LETTER OF DEVELOPMENT POLICY



**MINISTRY OF ECONOMY
AND FINANCE**

Antananarivo, February 19, 2020

The Minister

**Mr. David Malpass
President of the World Bank Group
1818 H Street NW
Washington DC**

Sir,

The General Policy (PGE) of the Government of Madagascar is to make up for the development gaps that have been accumulating for more than 50 years. The Government is currently finalizing the 2019-2023 Madagascar Emergence Plan (PEM) that sets the overall framework for national planning and defines priority actions and programs that would materialize the commitments made by the President of the Republic.

This Development Policy Letter represents a manifestation of the Government's desire to address the challenges of strengthening investments in human capital. As part of this, four reform programs have been initiated, namely: (i) improving human resource management in the health and education sectors; (ii) financial management reforms to improve budget predictability, efficiency, and transparency; (iii) strengthening social safety nets; and (iv) protecting women and children. These actions go towards the objective of reducing poverty in Madagascar. In addition, this reform program falls within the overall framework of the Government's program and complements existing commitments under World Bank operations. These include the reforms undertaken under the previous development policy operation whose continuation is key to ensuring the credibility of the present program.

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In 2019, economic growth has remained stable, with an estimated growth rate of 5.2 percent. This performance was mainly driven by the secondary sector for which the growth rate is forecasted to be 7.5 percent over the year. Increased investment in the energy sector and the development of export processing zones have been the main drivers. The tertiary sector, the main driver of growth, recorded growth of 5.1 percent resulting from the completion of various infrastructure projects that go towards the objectives of emergence. In the primary sector, despite favorable climate conditions for rice production, growth slowed down to 2.8 percent on average in 2019. Exports of the main cash crops and fishery products also slowed down in the first half.



Year-on-year inflation was contained at 6.8 percent in 2019 (at the end of the period) thanks to the implementation of a prudent monetary policy.

As regards public finance, the Government is continuing its efforts to mobilize revenue and strengthen expenditure management. The tax burden rate is estimated at 10.7 percent in 2019. The objective is to increase this rate by 0.5 point per year. As regards expenditures, an increase in public investment is expected, with an estimated rate of 7.4 percent of GDP in 2019 compared to 5.3 percent in 2018. Spending in the social sectors has been made a priority, namely for access to basic health services, education, drinking water, and malnutrition control.

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Economic outlook remains optimistic with economic growth estimated at 5.5 percent in 2020. This objective is in line with the Government's policy of emergence. The construction of critical infrastructure, such as roads, railways, energy, and public works, are the main drivers of growth. The tertiary sector will thus record a growth rate of 5.2 percent. For the primary sector, growth of 4.6 percent is expected as security is improved in rural areas and cultivable areas are expanded. As for the secondary sector, growth of 7.4 percent is expected, due in particular to positive developments in the food, beverage, tobacco and textile industries.

Inflation should stabilize at 6.2 percent in 2020 (at the end of the period) thanks to the prudent measures taken by the Government, and to the actions of Banky Foiben'i Madagasikara (BFM) on the management of monetary liquidity.

As regards public finance, the Government has been continuously implementing public finance management modernization efforts. Reforms have been accelerated to ensure increased revenue mobilization and efficient allocation of public funds. The fiscal policy aims to create more fiscal space while improving the quality of expenditure. As regards revenue, the implementation of action plans for the tax and customs administrations will improve revenue collection. These include improving VAT management, strengthening control and combating tax crimes. Particular attention will be paid to monitoring and analyzing tax expenditures. For 2020, the Government's ambition is to increase the tax burden rate by 0.8 points compared to 2019 to reach 11.5 percent of GDP. On the expenditure side, a stimulus policy has been adopted through strengthening investment expenditure. The objective is to improve the well-being of the population by prioritizing spending in the infrastructure sector, in the social field, and in security. To this end, capital expenditure is forecasted to stand at 8.7 percent of GDP for Year 2020.

Madagascar continues to implement its macroeconomic reform program, supported by the IMF's Extended Credit Facility (ECF) that has now come to an end. The Government plans to continue the reforms already underway while aiming for inclusive and sustainable growth and abiding by the commitments set out in the PGE.

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Madagascar is one of the poorest countries in the world with 75 percent of the population living on less than 1.90 USD a day. Its human capital index is also among one of the lowest. Madagascar is the fourth country in the world with the highest rate of chronic malnutrition, with 42 percent of children under the age of five being stunted. In the area of education, it is estimated that around 1.4 million children have dropped out of primary school and building the capacity of teachers is crucially needed. Among the poorest, 95



percent do not benefit from any social protection mechanism and such mechanisms will have to be strengthened by establishing social safety nets for the most vulnerable population groups. The Government, through the Madagascar Emergence Plan, makes it a priority to identify vulnerable groups and improve their situation through social measures that generate direct impact on the well-being of the population. Actions focus, *inter alia*, on establishing quality health and education services for all, promoting social protection, empowering women, and protecting children's rights.

Madagascar's educational system saw some improvements during the first decade of the 2000's. School enrollment increased, the number of schools increased by 25 percent, and primary school completion rate reached 60 percent. However, in recent years, this situation has deteriorated. The quality of education has declined, resulting in a decrease in student performance. Among children aged 10, 97 percent cannot read and understand a simple text. While teachers are a determinant of learning, the majority of primary school teachers have no qualifications and are currently recruited and paid by students' parents in order to fill vacancies, without any quality screening at recruitment.

In order to achieve the objective of quality education for all, the Government initiated the Teaching Policy that prescribes a process for recruiting and contracting teachers. On the one hand, a profile of teachers in the National Education was developed and established through an interministerial decree signed by the Ministers in charge of the Public Service, Education and the Economy and Finance. This profile sets the mission, the main activities, the skills and qualifications required of teachers. The objective is to have a tool for monitoring educational activities. By 2021, 70 percent of teachers will be recruited according to the positions in this profile. On the other hand, a ministerial note on education spells out the adoption of a new recruitment procedure for unsubsidized community teachers in additional Education Districts (CISCO) under which equity and qualification criteria are imposed. The recruitment of 10,000 teachers in the coming years will follow this new procedure.

In the area of health, Madagascar has, over the last years, been strengthening its interventions to improve the population's health status through public health measures, in particular as regards mothers and children who are regarded as vulnerable groups, control of communicable and noncommunicable diseases, health emergencies and epidemics. However, the population is still inadequately protected. The supply of health services is not entirely satisfactory. The low competency of health human resources, particularly in community health services, has been identified as one of the main causes.

According to the vision of the PEM for the health sector, “in 2030, Madagascar will have a quality health system accessible to all, allowing the entire Malagasy population to be in good health in a healthy environment, guaranteeing better and productive life”. It is therefore planned to strengthen planning, management and skills development of the health sector's human resources. To this end, the Government has set up a committee in charge of inspecting and controlling the standards of institutions providing training in health. An independent audit of the sector's private training institutions will be carried out by Year 2021 and a roadmap incorporating the findings will be implemented. It is expected that the proportion of paramedics graduating from these private institutions who will succeed at the entrance exam to the public service will increase.

The implementation of the software AUGURE (the public service human resources management application) forms part of the objective of strengthening and developing human resources in these two social sectors in Madagascar. This initiative aims to ensure transparent financial management and efficient management of the Government's human resources. The Government has adopted a decree to operationalize AUGURE, with the application integrating sectoral standards for staff, pay and geographic distribution of



agents. An audit of the system was carried out by the Court of Auditors, with the objective of ascertaining, on the one hand, whether the system complies with transparency procedures and rules in managing the workforce and pay, and on the other hand, whether AUGURE has the appropriate technological and functional base. The recommendations from this audit will be taken into account in the Government's action plan to improve the application. AUGURE will be disaggregated to the lowest level of service provision to allow for the registration of all state agents in Basic Health Centers (CSB) and schools.

With the objective of emergence, the Government is continuing its efforts to improve the quality of public expenditure, essentially promoting human capital development. Financial management reforms will be strengthened to improve budget predictability, efficiency and transparency. Mechanisms for prioritizing the allocation of resources, sequencing priorities, and selecting arrangements for financing public actions are put in place. Thus, social sectors are prioritized through the allocation of adequate resources.

Regarding the social protection program in Madagascar, the Government adopted the National Social Protection Strategy for the 2019-2023 period, in 2018. This strategy calls for establishing a sustainable system to ensure coverage of the most vulnerable groups in priority social safety nets. The authorities made the decision to continue using the existing mechanism by channeling funds through the FID that currently ensures the implementation of social safety nets. To this end, FID was granted a budget line on domestic funding, formalized through a Memorandum of Understanding between the Ministry of Economy and Finance and FID. The objective is to cover 30,000 households in 2021. At the same time, in order to secure the sovereign role of the Ministry of Population, Social Protection, and Women's Empowerment (MPPSPF), its budget for implementing the social protection program will be increased in the medium term. Thus, a manual describing the mechanisms for coordination, for scaling up in terms of number of targets, and for domestic financing was adopted.

Community health development is one of the Government's expectations. A mechanism for managing budget resources intended for CSBs is being set up so as to meet the actual needs of these facilities. Accordingly, funding for CSBs through the Ministry of Health has been included in the transfer budget so that it can be paid into the existing accounts of communes. The communes' budget must therefore include a "health allocation" program. A sub-account will be opened on the communes' existing accounts to receive all the grants to CSBs. The credit transfer to CSBs is disbursed in two installments no later than on April 30 and October 30 of the budget year, respectively. This mechanism is set up through a decree issued by the Government Council.

In terms of budget transparency, the Government is committed to raise Madagascar's OBI score to 80/100 in the short term. State financial operations must be transparent and accessible to the public. In a first stage, The Public Treasury will first make payment and administrative data available to the Administrative and Financial Directors in a format that can be used in accordance with Open Data standards. This approach has been formalized through regulation in order to avoid any abuse and to authorize sanctions for disseminating non-validated documents or data. Ultimately, the data will be openly accessible.

For better management of financial resources, it is necessary to strengthen transparency in tax policy decisions, with a particular aim of streamlining the tax expenditures management process. Such streamlining will allow for strengthening the efficiency of tax revenue mobilization, which is a condition required for the achieving emergence for Madagascar. Indeed, the amount of tax expenditures over the past three years has reached almost 25 percent of the tax revenue collected, which has significant impacts on



public resources. Assessments of tax expenditure will have to be made regularly to monitor activities in view of decision-making. This action has been instituted by a Circular Note issued by the Ministry of Economy and Finance. All new tax exemptions must be subject to a cost-benefit review, specifying the socio-economic objectives and result indicators. The results of such reviews will be annexed to the Budget Law.

Still in line with the objective of poverty reduction, the empowerment of women and the protection of children's rights rank high on the Government's agenda. Madagascar signed the Convention on the rights of the child in 1990. However, a quarter of a century later, the situation of children in Madagascar remains clearly worrying. According to the latest statistics, 14 percent of girls aged 15 to 19 are victims of sexual violence; one in two Malagasy girls is married or living with a partner before the age of 18; and early pregnancies affect one in three girls. Among children aged 5 to 14, 30 percent are engaged in labor and almost 12 percent of children enrolled in school exercise an economic activity in parallel. Furthermore, according to statistics, 30 percent of Malagasy women aged 13 to 49 are victims of violence (physical, psychological, sexual violence or abandoned by their spouses). Domestic violence is the most common form of violence. Madagascar is above all a patriarchal society where man dominates. The majority of the population has still no awareness of the law on marriage.

Madagascar has instituted a Law to combat gender-based violence. This Law aims to strengthen the legal system for the prevention and punishment of gender-based violence as well as for care, redress, and protection for victims. In addition, the National Child Protection Policy is under development and pending its effectiveness, the Ministry of Population, Social Protection and Women's Empowerment (MPPSPF) is carrying out an awareness-raising campaign at the regional level to fight against early marriage and encourage communities to sign a commitment to contribute to this fight through their traditional leaders.

The implementation of all these actions will enable the Government to achieve its emergence objectives in order to build a strong, prosperous and united nation for the freedom and well-being of the Malagasies. However, given the limited resources available to it, the Government is seeking financial support from the World Bank. This development policy operation will allow for supporting its efforts to combat poverty, and the various actions planned within the framework of the operation, namely the adoption of a series of regulatory texts, are demonstration of the Government's will to strengthen investments in human capital.

THE MINISTER OF ECONOMY AND FINANCE

(Signature) (Stamp)

RANDRIAMANDRANTO Richard



ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Pillar 1: Better qualified, distributed, and performing human resources in education and health sectors		
<p>Prior Action #1. To improve the quality of the Malagasy teaching workforce, the MENETP, MTEFPLS and the MEF have established the national teaching career and teacher skills requirements.</p>	<p>No – the introduction of standards will not have environmental effects.</p>	<p>No – the introduction of standards will not have social effects.</p>
<p>Prior Action #2. To expand the application of quality control measures for the recruitment of community teachers, MENETP has expanded the piloting of new procedures and qualifications for the hiring of non-civil service teachers in primary schools by FRAM to eight additional CISCOS (i.e., Ambalavao; Manakara; Toliara II, Brickaville, Antsiranana II, Befandriana nord; Ambohidratrimo; and Antanifotsy) starting from the 2019-2020 school year.</p>	<p>No – the introduction of merit-based recruitment criteria for contract teachers will not have environmental effects.</p>	<p>Yes – there will be significant positive social effects to rendering promotion criteria more transparent and merit-based, as those with less voice but high performing will have equal chances of obtaining promotions.</p>
<p>Prior Action #3. To improve quality control of institutions providing training for workers in the health sector, the Ministry of Public Health has created a health training institute inspection and quality control commission and established its organization and functions.</p>	<p>No – increased quality control of training in the health sector will not have environmental effects.</p>	<p>No – increased quality control of training in the health sector will not have significant social effects.</p>
<p>Prior Action #4. To allow for systematic counting of all public education and health professionals and rationalization of the distribution of human resources throughout the civil service, the Prime Minister, Head of Government has obligated all institutions and ministries, decentralized territorial collectivities, and public institutions and bodies to use AUGURE and the nomenclature of positions validated by the ministry in charge of civil service for the management of their personnel.</p>	<p>No – the introduction of this human resource management tool will not have environmental effects.</p>	<p>Yes – rendering more transparent the current distribution of human resources throughout the country will likely have significant positive social effects, as the disadvantages that those in rural areas currently face will be made more obvious/visible.</p>



Pillar 2: More transparent and predictable investments in human capital

Prior Action #5.

To support the expansion of the three-priority SSN programs in Madagascar (*i.e.*, TMDH, ACTP and FIAVOTA) (the “Priority SSN Programs”):

(a) the MEF and the FID have entered into a *Protocole d’Accord* dated 24 January 2020 pursuant to which, among other things, the Ministry of Economy and Finance has agreed (i) to make available to the FID, in the 2020 RPI budget line of the MEF, non-reimbursable funds in an amount equal to 6,000,000,000 Ariary; and (ii) that for the years 2021, 2022 and 2023, an RPI budget line is included in the budget law under the budget of the Prime Minister in a minimum amount of at least 18,000,000,000 Ariary (*i.e.*, the equivalent of US\$5,000,000) per year to finance activities under the Priority SSN Programs for the benefit of 30,000 additional households, and that such funds for the relevant year will be mobilized upon publication of the relevant budget execution decree, and released to the FID’s dedicated account in Ariary in a single lump sum on the basis of a release request letter with a program for the utilization of such funds from FID; and

(b) the Ministry of Population, Social Protection and Promotion of Women has validated a manual for the coordination and use of funds allocated to all SSN actions carried out by various stakeholders, including the Priority SSN Programs and published in the *Journal Officiel* of the Recipient on 17 February 2020.

No – the financing of the safety nets by domestic resources is not expected to result in environmental effects.

Yes – reaching an additional 30,000 households with social safety net financing and services is likely to result in significant positive social effects.

Prior Action #6.

To facilitate channeling financing to public primary healthcare centers (“CSBs”) for community health programs and improve related decentralized public financial management and budget

No – facilitating financing to primary healthcare facilities is not expected to result in significant environmental effects.

Yes – more predictable and significant financing to primary healthcare facilities will result in clinics that are open more reliably, with better services on offer, and more reliably stocked with medicines and other



<p>execution at the commune level, the Prime Minister, Head of Government has established rules relating to the management of budget allocations by the Ministry of Public Health to CSBs for community health programs, including, <i>inter alia</i>, provisions for the direct transfer of such CSB allocations to dedicated sub-accounts within the relevant communes' existing treasury accounts, and for expenses to be executed in accordance with a CSB allocations procedures manual to be elaborated by the Ministry in charge of Health and integrated within commune budget procedures.</p>		<p>needed in puts, resulting in significant social benefits in these areas.</p>
<p>Prior Action #7. To enhance transparency, oversight and accountability of budget processes and improve the efficiency of budgetary allocation and spending, the Prime Minister, Head of Government has established rules and principles of access to and use of data related to the budgeting of public entities, based on payments and cash, in revenues and in expenditures, in a format compliant with open data principles, applicable to users of (a) the Public Treasury Information System (SIT), the interface that permits collection or receipt of data from data providers and (b) the Public Treasury's Open Data Portal, a web-based platform through which the public may access the Treasury's open data relating to budget execution.</p>	<p>No – enhanced budget transparency, oversight, and accountability will not result in environmental effects.</p>	<p>No – enhanced budget transparency, oversight, and accountability will not result in social effects.</p>
<p>Prior Action # 8. To reinforce the capacity to transparently evaluate the efficiency of tax expenditures with a view to optimizing tax revenues, the MEF has established the framework for periodic evaluation of the efficacy of tax and customs exemptions and other preferential tax regimes, including the division of responsibilities, the sharing of information, and the methodologies with the view of achieving the socio-economic objectives of fiscal spending.</p>	<p>No – a more transparent review of tax exemptions will not result in environmental effects.</p>	<p>No – a more transparent review of tax exemptions will not result in social effects.</p>



Pillar 3: Stronger legal frameworks for the protection of women and children

Prior Action #9.

To strengthen the legal regime for the prevention and prosecution of acts of GBV and the protection of victims of GBV, Parliament has enacted a law relating to combatting GBV.

No – enhanced legal protections for women and children are not expected to result in environmental effects.

Yes – greater legal protections for women and children (and survivors of gender-based violence more generally) are expected to result in significant positive social effects.



ANNEX 5: CLIMATE CO-BENEFITS

1. **“Climate Co-Benefits” are the financial resources committed by the World Bank to development operations, which deliver positive benefits associated with the reduction of greenhouse gas emissions (climate change mitigation) and/or enable project/program beneficiaries to adapt to impacts of climate change (climate change adaptation).**

2. **The following provides an analysis of the Prior Actions proposed under the Madagascar Investing in Human Capital DPF in terms of:**

- **Vulnerability Context:** current and anticipated impacts of climate change on the DPF’s location, sector, and beneficiaries;
- **Intent to address vulnerability:** a clear statement outlining the DPF’s intent to address impacts of climate change in Madagascar, in social sectors, and for targeted beneficiaries; and
- **Links to Prior Actions:** specification of how the interventions undertaken in indicated prior actions will address the impacts of climate change outlined in the DPF’s climate change vulnerability context.

Overview of Vulnerability Context

3. **Madagascar is a large island nation with diverse ecosystems and significant development challenges.** These include high poverty rates, illiteracy, food insecurity, and poor health indicators. Key sectors on which the country’s economy relies include agriculture, fishery, and livestock.

4. **Madagascar faces significant risks from climate change.** Cyclones, droughts, and floods are common and increasingly frequent and intense, affecting food security, drinking water supply and irrigation, and human health.

Links with Human Capital in Madagascar

5. **Madagascar’s National Policy to Combat Climate Change, developed in 2010, has as its primary goal to “strengthen adaptation to climate change.”** The links between investments in human capital and adaptation to climate change in Madagascar are strong and clear. In terms of impacts and vulnerabilities, examples already observed regarding current climate trends include:

- Destruction of social infrastructure (schools, health centers, nurseries) due to cyclone events
- Medium to high index of direct fatalities associated with cyclone events
- Outbreaks (particularly towards the Highlands) of vector-borne diseases, particularly malaria
- Water stress (irregular rainfall patterns, drought and deficit in some areas)
- Thirty to sixty percent of the population of Southern Madagascar suffering from food insecurity due to drought periods, with high rates of chronic malnutrition compounded by decreasing yields and soil fertility loss.

6. **Climate change will continue to increase pressure on health and education service delivery systems.** Its impacts on the population of Madagascar will be distributed unequally, with the poor, women, children, and those living in vulnerable geographic areas at higher risk. This will require policies to: (i) strengthen service delivery systems and their role in adaptation; (ii) increase SSNs to protect vulnerable populations; and (iii) reduce gender inequalities that can be exacerbated by climate changes’ impacts.



Program Intent to Address Vulnerability

7. **The DPF reforms will contribute to address vulnerabilities in three ways:** (i) increasing human and financial resources to strengthen the role of health and education service providers in adaptation; (ii) increasing the efficiency and flow of resources to SSNs for victims of climate-related disasters, including through climate-adaptive public works; and (iii) strengthening the policy and legal foundation to ensure women and children can participate and benefit from adaptation efforts.

8. **These policy foundations will be complementary to those introduced through the Madagascar Disaster Risk Management DPF with a Catastrophe Deferred Drawdown Option (Cat DDO, P167941),** which will support the establishment of disaster risk management technical capacities to manage the impact of disaster and climate-related risks, strengthen financial resilience to disasters, and mainstream disaster and climate resilience into territorial and urban planning.

Link to Prior Actions

(i) Increasing human and financial resources to strengthen the role of health and education service providers in adaptation

- **Prior Action #1.** To improve the quality of the Malagasy teaching workforce, the MENETP, MTEFPLS and MEF have established the national teaching career and teacher skills requirements
- **Prior Action #2.** To expand the application of quality control measures for the recruitment of community teachers, MENETP has expanded the piloting of new procedures and qualifications for the hiring of non-civil service teachers.

9. **The Madagascar Health Climate Change Diagnostic highlights the key role of schools and teachers in Madagascar’s adaptation strategy, which should include:** (i) integration of water and sanitation education in primary school education programs; (ii) support for the role of schools in building community awareness and seasonal disaster preparedness for floods, cyclones, and droughts; and (iii) education for urban and rural populations about dangers of prolonged exposure to harmful air, specific to their region.

10. **MENETP, together with partners, has advanced several related initiatives.** These include the piloting of disaster risk management clubs in each college in three regions (with support from the German development Agency (Deutsche Gesellschaft für Internationale Zusammenarbeit, GIZ), establishment of *Eco Ecole* curriculum and school tree planting (with support from UNICEF), and other activities to strengthen the role of schools and teachers in national adaptation efforts. There are also efforts for teachers to help improve hygiene practices as part of their curricula. The current widespread lack of qualifications of teachers can undermine these efforts. This DPF will provide a policy foundation for ensuring the presence of qualified teachers, which will be essential if Madagascar is to effectively use them in climate adaptation activities.

11. **Currently, there is a rampant lack of qualified teachers in classrooms.** Community teachers account for 53 percent of the teaching force, and are nearly always found in poorer, more rural, and more remote parts of the country. These marginalized areas coincide with populations at heightened risk to observed and anticipated climate trends.

- **Prior Action #6.** To facilitate channeling financing to public primary healthcare centers (Centres de Santé de Base) (“CSBs”) for community health programs and improve related decentralized public financial management and budget execution at the commune level,



the Prime Minister, Head of Government has established rules relating to the management of budget allocations by the Ministry of Public Health to CSBs for community health programs, including, inter alia, provisions for the direct transfer of such CSB allocations to dedicated sub-accounts within the relevant communes' existing treasury accounts, and for expenses to be executed in accordance with a CSB allocations procedures manual to be elaborated by the Ministry in charge of Health and integrated within commune budget procedures.

12. **Madagascar will experience greater variability in precipitation and increases in temperature, sea level, sea surface temperature, and cyclonic activity and intensity.** These climate-related changes are expected to amplify direct health impacts (drownings, physical trauma, forced migration), indirect health impacts (diarrheal and vector-borne diseases) and direct impacts on the health system in terms of infrastructure and services.

13. **Madagascar is highly vulnerable to emerging epidemics, which accounted for 35 percent of total shocks between 2005-2018, accounting for 28 percent of resulting death tolls.** Almost 30 percent of all deaths in Madagascar are still attributable to preventable and infectious and parasitic diseases, and Madagascar has the fourth highest chronic malnutrition rate in the world. As highlighted in the Madagascar Climate Change and Health Diagnostic (p. ix-x), "Climate is expected to act as a risk multiplier on these already parlous statistics, exerting additional stress on its health sector capacity...Low levels of access are a particular cause for concern with regard to the system's ability to manage climate-related stresses, including increases in patient numbers that arise during extreme weather events. Additionally, the urban concentration of health facilities relative to those available in rural areas, coupled with inadequate transportation infrastructure, indicates a further pressure point regarding potential climate impacts on health. Climate change is expected to harm poor people living in rural areas disproportionately, and currently the health sector is unprepared to respond to these expected impacts." Moreover, under 14 percent of the Malagasy population had access to safe sanitation in 2012 (WSP 2012), contributing to high prevalence of water- and sanitation-related illnesses. Precarious water and sanitation systems are highly vulnerable to climate variability, expected to worsen.⁵⁶

14. **The primary health care system, while proportionally underfunded, is the first line of response for the identified key areas of climate-related health risk:** (1) nutrition; (2) waterborne disease; (3) vector-borne disease; and (4) air pollution. Primary health care facilities (CSBs) are responsible for providing basic nutrition services to mothers and children, leading prevention efforts and responding to water and vector-borne diseases, as well as those related to air pollution (e.g. respiratory diseases and pneumonia). The prior action will contribute to increase the financing flow to this level of care, essential to improve Madagascar's capacity of response to these risks as they increase, and to coordinate prevention efforts.

15. **The DPO's Prior Action 6 introduces a public financing reform that serves to remove the current**

⁵⁶ As the Health Climate Change Diagnostic highlights, "Extended dry periods may deplete water sources or make them intermittent, reduce good hygiene practices, and accelerate airborne fecal dust in open defecation zones, all while reducing the performance of sewers (where they do exist). Extreme weather events may damage water- and sanitation-related infrastructure, while flooding may result in the contamination of water supplies. Sea level rise is expected to compromise water sources in some coastal regions through a range of impact pathways."



bottlenecks that prevent financing for CSBs to reach their intended destination. This will contribute to increasing capacity of the health care system to address the disproportionate health impacts of climate change in the rural and most vulnerable parts of the country. Although each of Madagascar’s 3,000 clinics has almost US\$1,000 allocated to it in the Ministry of Public Health’s budget, clinics rarely – if ever – receive those funds. When they do, it is as an in-kind contribution from health districts that estimate the clinics’ needs on their behalf. This is an important first step in eventually correcting the inequities in health financing, since rural and semi-rural areas account for only 5 and 13 percent of non-recurrent spending respectively, despite serving more than half of the population.⁵⁷ Public health facilities also serve primarily poor segments of the population, since poor households are disproportionately reliant on seeking health services from the public sector.

16. **A large body of literature documents distance to health services as a barrier to health care and a contributor to infant and child mortality.**⁵⁸ Improving resource flows to CSBs in these areas is critical to serving those that are most vulnerable to the impacts of climate change on human health and health systems. This financing can also contribute to the significant infrastructure gaps at the primary care level in regions prone to droughts, cyclones, and floods (e.g., through solar/turbines and independent water sources) as well as disaster proof medical waste management facilities. Low carbon health system design also requires a greater emphasis on local providers, but access and demand for care from CSBs is severely hampered by their lack of access to financing. This will be complemented by Madagascar’s current efforts to implement a curriculum through the *Institut National de Santé Publique et Communautaire* for health professionals for managing emergencies and catastrophes, required to expand the health systems response in newly exposed areas due to climate change and climate variability.

17. **Beyond the benefits of enhanced systems readiness, the PSIA for the DPF estimated the following benefits for poor and vulnerable populations that would be accrued as a result of ensuring an additional US\$1,000 in operating costs get to CSBs per year, increasing coverage of community health services:**

- i. At least 130,000 children covered by nutrition information campaigns that otherwise would not be covered (at least 44 additional children/CSB);
- ii. At least 130,000 parents would be educated in better nutrition strategies (at least 44 additional parents/CSB); and
- iii. At least 130,000 children would be screened and referred to services (at least 44 additional children/CSB).

(ii) Increasing the efficiency and flow of resources to SSNs for victims of climate-related disasters, including through climate-adaptive public works

- **Prior Action #5.** To support the expansion of the three priority SSN programs in Madagascar (i.e., TMDH, ACTP and FIAVOTA) (the “Priority SSN Programs”):
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- (a) the MEF and the FID have entered into a *Protocole d’Accord* pursuant to which, among other things, the MEF has agreed (i) to make available to the FID, in the 2020 RPI budget line of the MEF, non-reimbursable funds in an amount equal to

⁵⁷ World Bank PER, 2014.

⁵⁸ Anja Schoeps, Sabine Gabrysch, Louis Niamba, Ali Sié, Heiko Becher, The Effect of Distance to Health-Care Facilities on Childhood Mortality in Rural Burkina Faso, *American Journal of Epidemiology*, Volume 173, Issue 5, 1 March 2011, Pages 492–498 <https://academic.oup.com/aje/article/173/5/492/89038>.



6,000,000,000 Ariary and (ii) that for the years 2021, 2022 and 2023, an RPI budget line is included in the budget law under the budget of the Prime Minister in a minimum amount of at least 18,000,000,000 Ariary (i.e., the equivalent of US\$ 5,000,000) per year to finance activities under the Priority SSN Programs for the benefit of 30,000 additional households, and that such funds for the relevant year will be mobilized upon publication of the relevant budget execution decree, and released to the FID's dedicated account in Ariary in a single lump sum on the basis of a release request letter with a program for the utilization of such funds from FID; and

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- (b) the Ministry of Population, Social Protection and Promotion of Women (Ministère de la Population, de la Protection Sociale et de la Promotion de la Femme) has validated a manual for the coordination and use of funds allocated to all SSN actions carried out by various stakeholders, including the Priority SSN Programs.

18. **By channeling domestic resources through the national budget, the Prior Action will expand the three-priority SSN programs that are foundational to Madagascar's strategy for climate adaptation and disaster response for the most vulnerable.** The three programs are the TMDH, the ACTP, and FIAVOTA, an emergency response program. TMDH and ACTP use geographic targeting to select the most vulnerable communities in the country, also often the most at-risk to climate related events. Within each community, the programs use proxy-means testing to identify which households are most vulnerable and in need of support from SSNs. For FIAVOTA, the program is a direct response to vulnerable populations that have lost much of their livelihoods due to climate-related shock, i.e. droughts.

19. **The cash-for-work program also supports a number of public works activities that contribute to adaptation and mitigation, selected by local communities, with technical support from relevant ministries, as well as the social protection system.** Examples of activities carried out to date are watershed management, terracing, and reforestation.

As an indicative measure of ongoing SSN activities that would be expanded:

- i. It is expected that over 30,000 poor households would benefit from the accompanying measures under the SSN Program. At about five children per household, this means that an additional 150,000 additional children would benefit directly from enhanced adaptation.
- ii. Activities contributing to mitigation (e.g. cash for work projects involved in reforestation) account for about 8 percent of the current project that supports this program.
- iii. Total awareness raising about prevention and mitigation of communicable diseases, WASH, health and sanitation is an estimated 7 percent of total project cost, reaching 100 percent of beneficiaries.
- iv. This prior action would help enable an expansion of program scale by US\$5 million per year, improving Madagascar's response capacity to climate shocks.

(iii) Strengthening the policy and legal foundation to ensure women and children can participate and benefit from adaptation efforts.

- **Prior Action #9.** To strengthen the legal regime for the prevention and prosecution of acts of GBV and the protection of victims of GBV, Parliament has enacted a law relating to combatting GBV.



20. **A gender analysis of the National Adaptation Plan (NAP) Global Network in six African countries that included Madagascar argues that legal and policy frameworks on gender and/or women, designed to address gender equality are fundamental to provide a mandate for integrating gender in NAP processes.** “The common priorities identified in the gender policies across most countries are relevant in the context of climate change because they focus on addressing the root causes of gender inequalities, which is needed to reduce vulnerability to climate change impacts...In some cases, such as in Madagascar, the revision of the gender policy is providing the opportunity to reframe the gender equality agenda from a women’s issue to an issue about the differences and dynamics between women and men. This suggests that countries have the policy basis in place to ensure that reducing gender inequalities is an explicit focus of their NAP process.”

21. **As this analysis indicates, overcoming barriers women face in access to basic services and social protections is fundamental.** “These disparities mean that women and girls are at a disadvantage when it comes to accessing information, engaging in planning and decision-making processes, and investing in adaptation actions. For women to realize their potential as agents of change in adaptation, these gaps must be overcome through investments in basic services that are targeted and gender-responsive.”

22. **The DPF seeks to address formidable gaps that still exist in the legal framework in Madagascar, starting with the law to combat GBV.** Although controversial, studies indicate that there is linkage between rising temperatures and increase in aggression and violence in society (World Bank, Climate Change Knowledge Portal, 2019). Thirty percent of Malagasy women declared having suffered from some kind of violence (psychological, physical, sexual or economic). Beyond the individual harm inflicted on women and their families, the substantial economic costs of GBV in terms of human capital are well documented and contribute to the acute disadvantages women face in adapting to the impacts of climate change.

23. **Children, especially girls, are also at heightened risks of the effects of climactic shocks, expected to increase.** Investigations have linked hardship from climate related shocks to increases in the prevalence of child marriage in societies like Madagascar, where the bride’s family traditionally receives a dowry payment, used by some families as a means of income in times of hardship. Nearly half of all Malagasy women (48 percent) aged 20-24 were married or cohabiting before the age of 18. Child marriage is negatively linked with: (i) fertility and population growth; (ii) health, nutrition, and violence; (iii) educational attainment and learning; (iv) labor force participation and earnings; and (v) participation, decision-making, and investments. Indicative triggers would be the adoption of National Policies on Gender Equality and Child Protection, supported by the development of an operational manual for community outreach campaigns, including the model pledge to be signed by communities to combat child marriage. This builds on the SNLME, which aims to reduce child marriage from 41.2 percent in 2017 to 21.2 percent in 2024. The broader child protection framework would cover not only child marriage, but also other critical areas, such as violence against children, civil registration, trafficking, and child labor. Almost 1 in 4 - 23 percent - children aged five to 17 are involved in economic activity, including prostitution. As economic hardship is protracted by observed climate trends, legal protections are an essential part of adaptation. Accompanied by an integrated, budgeted plan for child protection, as well as coordinated community outreach to engage local leaders, these foundations are critical to ensure women and girls have legal protections in place to help ensure their disadvantages are not exacerbated by climate-related stresses and disasters.



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