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**INTERNATIONAL DEVELOPMENT ASSOCIATION
AND INTERNATIONAL FINANCE CORPORATION
AND MULTILATERAL INVESTMENT GUARANTEE AGENCY**

COUNTRY PARTNERSHIP FRAMEWORK

FOR

THE REPUBLIC OF MADAGASCAR

FOR THE PERIOD FY17-FY21

May 30, 2017

**Southern Africa Department 2
Africa Region**

**The International Finance Corporation
Africa Region**

The Multilateral Investment Guarantee Agency

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MGA 3,178 = US\$1

(Exchange Rate Effective as of April 30, 2017)

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ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank	INSTAT	Institut National de la Statistique (National Statistical Institute)
AFD	Agence Française de Développement (French Development Agency)	ISN	Interim Strategy Note
AGOA	African Growth and Opportunities Act	JICA	Japan International Cooperation Agency
ASA	Advisory Services and Analytics	JIRAMA	Jiro sy Rano Malagasy (Power and Water of Madagascar)
ASM	Artisanal and Small-Scale Mining	MFI	Microfinance Institution
CAS	Country Assistance Strategy	MW	Megawatts
CBM	Central Bank of Madagascar	MIGA	Multilateral Investment Guarantee Agency
CLR	Completion and Learning Review	MSME	Micro, Small and Medium Enterprises
CPF	Country Partnership Framework	NDP	National Development Plan
CPIA	Country Policy and Institutional Assessment	NGO	Non-Governmental Organization
DP	Development Partners	NTD	Neglected Tropical Diseases
DPO	Development Policy Operation	ONN	Office National de la Nutrition (National Office of Nutrition)
ECF	Extended Credit Facility	PEFA	Public Expenditure and Financial Accountability
EDBM	Enterprise Development Board of Madagascar	PFM	Public Finance Management
EIB	European Investment Bank	PLR	Performance and Learning Review
EITI	Extractive Industries Transparency Initiative	PPIAF	Public-Private Infrastructure Advisory Facility
ENSOMD	Enquête Nationale du Suivi des Objectifs du Millénaire pour le Développement (National Survey on the Millennium Development Goals)	PPP	Public-Private Partnership
EPM	Enquête Périodique auprès des Ménages (Periodic Household Survey)	SADC	Southern Africa Development Community
ESG	Environmental, Social and Governance	SCD	Strategic Country Diagnostic
EU	European Union	SDI	Service Delivery Indicators
FAO	Food and Agriculture Organization of the United Nations	SDR	Special Drawing Rights
FDI	Foreign Direct Investment	SME	Small and Medium Enterprise
GAVI	Global Alliance for Vaccines and Immunization	SOE	State-Owned Enterprise
GDP	Gross Domestic Product	SSA	Sub-Saharan Africa
GHG	Greenhouse Gas	TADAT	Tax Administration Diagnostic Assessment Tool
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)	UN	United Nations
GPE	Global Partnership for Education	UNDP	United Nations Development Program
ICT	Information and Communications Technology	UNESCO	United Nations Educational, Scientific and Cultural Organization
IDA	International Development Association	UNFPA	United Nations Population Fund
KWh	Kilowatt hour	UNICEF	United Nations International Children's Emergency Fund
PSW	Private Sector Window	US	United States
IFAD	International Fund for Agricultural Development	USAID	United States Agency for International Development
IFC	International Finance Corporation	WASH	Water and Sanitation for Health
IMF	International Monetary Fund	WBG	World Bank Group
INDC	Intended Nationally Determined Contribution	WDI	World Development Indicators
		WFP	World Food Program
		WHO	World Health Organization

	IDA	IFC	MIGA
Vice President:	Makhtar Diop	Dimitris Tsitsiragos	Keiko Honda
Director:	Mark R. Lundell	Oumar Seydi	Merli Baroudi
Task Team Leaders:	Coralie Gevers, Ellena Rabeson	Kailash Satyam Ramnauth	Petal Jean Hackett

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REPUBLIC OF MADAGASCAR
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I. MADAGASCAR, A COUNTRY OF UNREALIZED POTENTIAL

1. This Country Partnership Framework (CPF) sets out the World Bank Group’s (WBG) proposed strategy in Madagascar for the period of FY17-FY21. As the country has emerged from a political crisis, the CPF supports the Government’s goal of generating a higher, inclusive and sustainable growth path to reduce poverty, as presented in its 2015-2019 National Development Plan (NDP). The expanded resources and the larger range of instruments available under IDA18 enable the WBG to support the Government in putting the country on a higher development trajectory, by investing at scale in a few areas that could unlock Madagascar’s development. Success in achieving ambitious goals – such as doubling the rate of electricity access – will hinge on the authorities’ ability to sustain reforms while addressing some of the causes of the country’s cyclical instability.

2. Madagascar is an island nation blessed with many assets, starting with a population of 24 million, of which 64 percent is under 25 years of age. Large swaths of agricultural lands, forest areas, and access to the sea could make it the “food basket” of the Indian Ocean, if not beyond. A small but reasonably diversified private sector has the potential to thrive, in part thanks to a relatively literate workforce. In particular, unparalleled biodiversity and cultural wealth could drive large tourism expansion.

3. The country’s track record suggests that Madagascar is capable of strong growth when its assets are deployed effectively and there is political stability. Between 2003 and 2008, a period of relative political stability, large mining investments, a vibrant export processing zone, and the introduction of important reforms in a number of areas, including investment climate, led to an average growth rate of 6.3 percent. The country’s comparative advantage lies in sectors that use its unique biodiversity, rich natural resources and abundant (unskilled) labor intensively such as tourism, agribusiness, fisheries, extractive industries, trade services, and textile industries.

4. However, periods of growth have repeatedly been interrupted by political crises, the latest and longest episode of which was the 2009-2013 crisis. Over the last fifty years, all heads of state (excluding the current President) have either gained or lost power as the result of an unconstitutional event. The application of existing institutions and legal norms has been repeatedly undermined by the political networks of a few. Similarly, development policies have often been diverted for the benefit of small elite groups and some large businesses, at the exclusion of large segments of the population and Small and Medium Enterprises (SMEs). Instability has deterred investors, curtailed access to finance, depressed tourism and led Development Partners (DPs) to cut back aid.

5. The Malagasy population has borne the cost of political instability and poor growth: poverty is now among the highest in the world. The average Malagasy is 42 percent poorer today than she was in 1960¹, the year of Madagascar’s independence. In 2012², only 30 percent of Malagasy lived above the national poverty line and only 10 percent above the international poverty line. The story of inequality is not so much one of excessive concentration of wealth for a few but one of deep poverty: the average Malagasy consumes 46 percent less than a person living right at the national poverty line. A population that is growing at 2.8 percent per year creates additional pressures on the already limited capacity to deliver basic services across the country, on natural resources, and on growth.

¹ Measured in real GDP per capita. Only DRC and Liberia fared worse than Madagascar over the 1960-2010 period.

² Most recent data available drawn from the ENSOMD 2012 survey.

6. Extreme weather events have also been important drivers of persistent poverty. Madagascar is one of the most exposed countries to weather events with an average of three major climate-related disasters (cyclones, flooding, and droughts) per year. More recently, the 2017 Enawo cyclone affected over 430,000 people with an estimated economic loss equivalent to 4 percent of gross domestic product (GDP). The severe drought that has affected the South for the past three years has led to food insecurity for 1.1 million people. Climate change scenarios foresee that those weather events may increase in intensity over the coming decades. The country's resilience, however, is constrained by the pre-existing vulnerability of the population and the weakness of the public infrastructure and services.

7. The return to constitutional order in early 2014 has put the country back on a positive development path and opened the door for an expanded WBG engagement to pursue the goal of ending poverty. Commitments supported by the international community under a Roadmap brokered by the Southern African Development Community (SADC) in 2011 to end the crisis have strengthened democratic and security institutions and improved the prospects for continued political stability. Macroeconomic stability has been maintained and growth has accelerated modestly. With International Monetary Fund (IMF) support through a three-year Extended Credit Facility (ECF) program, essential reforms to increase tax revenues are starting to pay off with fiscal revenues climbing from 9.9 percent of GDP in 2014 to 10.9 percent in 2016. While more reforms are needed to limit transfers to state-owned enterprises (SOEs), the increased fiscal space has enabled the Government to raise investments and social spending. Authorities have advanced a few reforms for attracting and supporting private investment. However, private investors still face many deterrents such as an unreliable justice system and unfair competition practices.

8. The program proposed under this CPF seeks to increase the resilience of the most vulnerable people and to promote inclusive growth, while strengthening national and local institutions so as to reduce fragility. It is supported by a renewed dialogue with the authorities, the private sector and civil society. It is grounded in solid analytical work that has been prepared in recent years, most notably a Fragility Assessment (FY15), the Systematic Country Diagnostic³ (SCD) (FY16), two Poverty and Gender analyses (FY14, FY16), several analyses of local governance and political economy (FY15-FY16), and sectoral studies on health and education, agriculture, and financial sector. It builds on the lessons learned from the interrupted implementation of the FY07-FY11 Country Assistance Strategy⁴ (CAS) and the FY12-FY13 Interim Strategy Note⁵ (ISN). In particular, the WBG will leverage the various IDA18 instruments to enable critical interventions – in energy, agriculture, financial inclusion, and human development – that have the potential to contribute significantly to the eradication of extreme poverty.

9. As part of the overall objectives of increasing the resilience of the most vulnerable and promoting inclusive growth, the WBG is committed to investing resources over a sustained period (i.e., a minimum of ten years) so as to achieve some ambitious targets. In particular, the WBG is committed to working with the authorities to advance the transformation of the energy sector and move from a failing public utility and service to a doubling of the electricity access rate by using strategically the IDA18 financing instruments in a way that de-risks the country for private investors. This would help unleash economic growth in urban and rural areas and would improve quality of life. Similarly, the WBG would work with the Government and other DPs to reverse the negative trends in health, nutrition and education outcomes among children and, instead, strengthen their future productive potential. By 2021, this "Investing in Early Years" program which combines interventions in health, nutrition, social protection, and education, would reduce stunting among children under five years of age by 1 percentage point per year in the regions with

³ August 25, 2015.

⁴ Report No. 38135-MG – March 7, 2007.

⁵ Report No. 63863-MG – December 28, 2011.

the highest chronic malnutrition rates and would increase the number of children reaching the last grade of primary school by 25 percent across the country.

10. Risks to achieving those objectives continue to be substantial and will require the WBG to adopt a flexible approach. First, the nascent rebound in economic growth has not yet been felt by a large majority of the population. The depth of poverty is also such that extreme climate events could quickly reverse the small gains achieved since 2014 and fuel social tensions. Second, presidential elections are expected to take place in late 2018. They could generate a slowdown in the adoption of reforms and lead to a rise in political tensions. Recent crises have occurred around elections and thus the possibility of another crisis cannot be excluded. Finally, it remains to be seen if the Government will be able to address the roots of the country's fragility and change the bargain between the elites and the rest of the population, including by creating a more level playing field for the private sector. These risks will require the WBG to monitor closely the country context and be ready to adapt its approach throughout the CPF period.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

2.1. Social and Political Context: The challenge of overcoming a history of fragility

11. Madagascar's recurrent political crises are the result of deep-rooted governance challenges. First and foremost, the state and political system is determined by networks of a few powerful political and business leaders who form and shift alliances periodically to preserve their access to rents. Their influence is barely checked by a justice sector that is perceived as corrupted and contributes to a generalized feeling of impunity. Second, society is fragmented along ethnic, religious, wealth, and gender fault lines. The strongly centralized state system is not conducive to resolving those tensions. These social divisions are also at times exploited by leaders for political purposes. Third, the abundance of natural resources, coupled with weak governance, has contributed to the rapid growth of a trafficking economy around precious woods, gold and stones, cattle, and valuable biodiversity. Tensions around the capture of these natural resource rents have been increasing and it is thought that those rents, particularly ones extracted from the illegal sale of rosewood, may play an important role in financing political ambitions. Finally, the system of checks and balances remains nascent because of: (i) a parliamentary system where political alliances are fragmented, unstable and not grounded in common agendas; (ii) the weakness of civil society, though a few recently formed platforms are becoming important stakeholders in the dialogue on natural resources, budget transparency, and service delivery; and (iii) the lack of independence of the media, as the major publications, radio and TV stations are affiliated with influential economic groups or owned by political leaders.

12. Those drivers of fragility are reflected in several governance indicators. The World Governance Indicators for Madagascar recorded a sharp decline in Government Effectiveness, Control of Corruption and Rule of Law between 2008 and 2014. The first two indicators have slightly ticked up in 2015. With a score of 26/100 on the Corruption Perception Index of Transparency International in 2016, Madagascar ranks 146th, a position similar to Bangladesh, Cameroon and Kenya.

13. Repeated crises have also shed light on the country's strengths at the local level and the astonishing resilience of its people. A vibrant informal economy has provided alternative employment (or rather under-employment) and is an important source of livelihood in urban areas. Traditional solidarity mechanisms play out within families, among neighbors, and farmers. Unfortunately, this solidarity has been put to the test in recent decades and is perceived as weakening. A long-established and respected institutional set-up of "communes" and neighborhoods (*fokontany*) provides some local

services (e.g., citizen registration, trash management) and also helps to resolve local disputes (most often related to land ownership). This local structure is the foundation for a more effective decentralization. Finally, churches have traditionally played a positive role in mediating past crises and represent a powerful voice, listened to by the population.

14. Overcoming fragility – a *sine qua non* for reducing poverty in a lasting way – requires consolidating political reconciliation and re-balancing the power between a strong central state and the decentralized structures, while addressing key constraints to pro-poor growth. These are core elements of the State Policy (*Politique Générale de l'Etat*) that has been outlined by President Rajaonarimampianina and further fleshed out by the Government in the 2015-2019 NDP and the 2014 law on decentralization.

15. Since 2014, efforts have been under way to bring about greater political stability and to strengthen democratic institutions at the central and local level. Municipal and senatorial elections took place in July and December 2015, respectively, in accordance with the SADC Roadmap. All of the institutions planned under the Constitution have now been established, though some are awaiting nominations to be operational. Parliament adopted the new law on national reconciliation in late 2016 which foresees the establishment of a National Reconciliation Council. On security reform, consultations in all 22 regions of Madagascar have been held to determine local priorities and have fed into a General Policy Letter on Security Reform. Strategic and operational plans of the Policy letter have been developed and should be validated by the Council of Ministers by mid-2017.

16. Presidential elections are expected to take place in late-2018/early-2019 and may be tense. The Independent National Commission for Elections has been established. It is undertaking consultations on the revision of the legal framework for elections and of its calendar, with the support of the United Nations Development Program (UNDP). Through its new Support to the Electoral Cycle of Madagascar (SACEM) project, UNDP will help the Malagasy Government frame and pilot the international assistance to the electoral process during the 2017-2019 period, with the objective to consolidate social peace and democratic legitimacy. Former Presidents – who were not candidates in the 2013 elections per the agreement reached under the SADC Roadmap – have already announced their intention to run against the sitting President. This could lead to increased political confrontation and possibly crisis. However, it is hoped that the 2018 elections will instead be remembered as the first time in Madagascar's history that a Presidential term started and ended with a constitutional transfer of power through elections.

2.2. Recent Economic Developments: Improved performance calling for further reforms

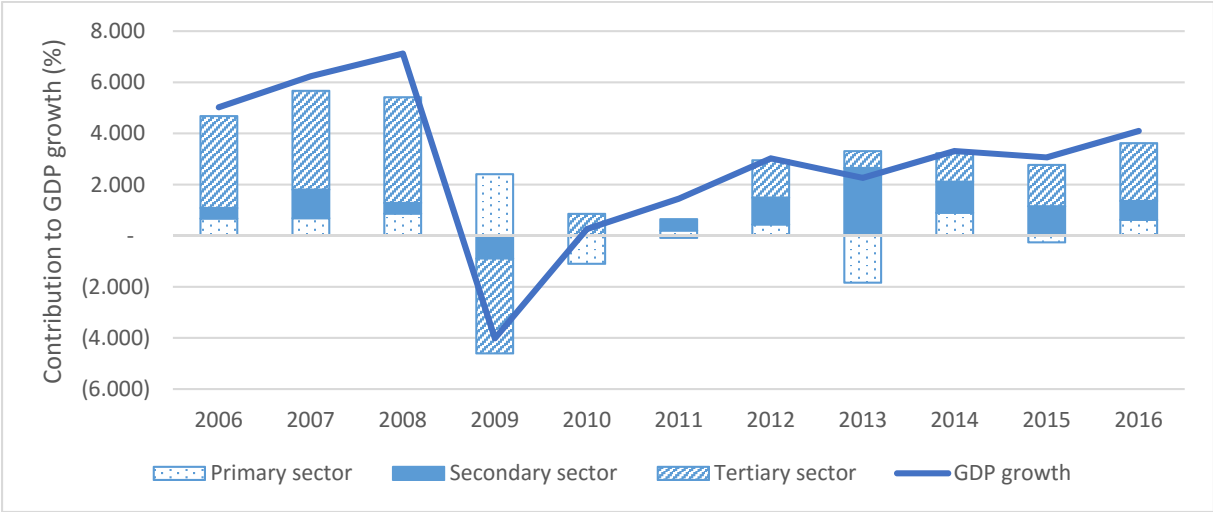
17. Madagascar kept a prudent fiscal and monetary stance throughout the latest political crisis. Macroeconomic stability was maintained during the crisis owing to effective fiscal, monetary and exchange rate policies: expenditures were reduced from 18 percent of GDP in 2008 to as low as 13 percent of GDP in 2012, mostly through reductions in capital and non-wage recurrent spending. The suspension of most donor activities in 2008, in a country where grants represented 3.4 percent of GDP, further accentuated the impact on investments and service delivery. Inflation hovered around 6-7 percent, the fiscal deficit was less than 2 percent of GDP during the crisis (2009 to 2013). The country's debt strategy was prudent and the authorities generally refrained from borrowing externally on non-concessional terms.

18. The pace of growth and the sectors underpinning economic development have fluctuated significantly. The political crises have had a direct bearing on the economy, where periods of economic growth have coincided with greater political stability. In the pre-crisis period, the service sector was an

important source of growth, with private sector activity in transport, public works, information and technology, and banking. As the political crisis unfolded in 2009, investor confidence plummeted with many private firms reducing their operations or halting activities altogether. The increased contribution of the manufacturing sector from 2011 reflects the commencement of mining activities. However, the contribution of extractive industries to growth has slowed as global nickel prices have declined. In addition, although an approximate 80 percent of the population are engaged in agricultural activities, the sector is characterized by low levels of productivity, where growth is heavily dependent on favorable climatic conditions.

19. The Malagasy economy is characterized by a large informal sector. As private sector activity reduced during the political crisis period and Madagascar lost eligibility to the African Growth and Opportunities Act (AGOA)⁶, the informal sector engaged a higher proportion of the population. In 2012, an estimated 93 percent of the population were employed in the informal sector compared with 72 percent in 2001. The latest figures available suggest that the value added of the informal sector was 24 percent of GDP in 2012. More than two thirds of revenue from the informal sector is generated from trade-related activities followed by industry and services, at 15 and 14 percent, respectively. While certain informal establishments have realized good economic performance, the vast majority are still operating at subsistence level. The informal sector faces a number of challenges including poor levels of infrastructure, lack of opportunities arising from poor market conditions, and low levels of access to finance. The informal sector is discussed in depth in the SCD.

Figure 1: Madagascar’s economy is characterized by volatile growth rates



Source: INSTAT and World Bank, December 2016

20. Since 2014, Madagascar’s economy has slowly been recovering from the five-year crisis. GDP growth is estimated to have accelerated to 4.2 percent in 2016, a faster rate than the annual 2.8 percent population growth. This puts GDP growth per capita on a positive path, in contrast with the 2011-2015 period when the average economic growth rate was only 2.6 percent of GDP.

⁶ AGOA is a United States Trade Act enacted in 2000 which enhances market access to the US for qualifying SSA countries. In order to qualify and remain eligible, a country must be working to improve its rule of law, human rights, and respect for core labor standards. Madagascar lost its AGOA eligibility in 2009 and regained it in 2014.

21. In aggregate terms, all key sectors in the economy contributed to this slight growth rebound in 2016. The expansion has been driven by: (i) an increase in public works, transport and commerce activities; (ii) a modest growth in free zone enterprises (mostly textiles), food and beverages; and (iii) a recovery in the agricultural sector resulting from more favorable weather conditions and rapidly increasing vanilla prices. Tourism is expected to add a further boost. Growth in extractive industries continues to be subdued by the persistently low international prices for nickel.

22. The current account balance continues to improve, mainly on the back of strong vanilla prices. The current account deficit remained below 2 percent of GDP in 2014 and 2015 and was estimated at 0.8 percent of GDP in 2016. This positive trend reflects a decline in imports associated with foreign direct investment (FDI) in support of two major mining operations, which are now generating export earnings. However, this positive development is experiencing some headwind from mineral and metal prices below historical average. FDI is increasingly oriented towards the financial sector, services, telecommunications and to some extent manufacturing activities. Rapidly increasing vanilla prices and higher exports of textiles, helped by the reinstatement of trade privileges under AGOA, have improved the trade balance further. These improvements in the current account might be reversed in coming years as the rapid rise in the price of vanilla, while expected to continue in 2017, might be short-lived and energy prices are once again on the rise.

23. Monetary policy has responded relatively well to the vanilla price hike. Due to a tripling of vanilla prices, upward pressures on the exchange rate were high in 2016. In order to ease the appreciation of the currency, the Central Bank purchased substantial amounts of foreign currency. This led to a strong accumulation of central bank reserves and an expansion of the monetary base. Official reserves rose to the equivalent of four months of import cover at end-2016 compared to 2.9 months at end-2015. Inflation in Madagascar is strongly linked to the evolution of local prices, particularly rice which is a key component of household consumption. Average inflation is estimated at 7 percent in 2016 compared to 7.6 percent in the previous year. To ease inflation, the Central Bank decided in October 2016 to maintain the policy rate at 8.3 percent and mandatory reserves at 13 percent.

24. The Malagasy financial sector, particularly the banking sector, has shown remarkable resilience in times of crisis. Financial soundness indicators show an underlying robustness of the banking sector with solid capital adequacy, high profitability and ample liquidity. The capital adequacy ratio is high (i.e., around 12.3 percent in March 2016, well above the required minimum of 8 percent), though on a declining trend. Banks are highly profitable, mostly due to high spreads between loan and deposit rates and a comfortable fee income. Liquidity in aggregate is ample, with banks' deposits exceeding loans, although liquidity management is hindered by the lack of an effective secondary market in government securities and a segmented interbank market. The non-performing loan (NPL) ratio remains elevated at around 11 percent (as of March 2016) but is on a declining trend.

25. This resilience of the banking sector is primarily explained by conservative financing policies and solid governance structures, though regulatory and supervisory arrangements need to be further strengthened. Until recently, all significant banks were linked to international banking groups. These banks have been traditionally risk averse in their lending practices and favored a business model based on charging high real interest rates and fees on loans to a limited clientele. Nonetheless, the banking system is still exposed to substantial risks related to concentration and exposure to related parties. The difficulty in enforcing creditor rights and realizing collateral implies high default rates and the need for higher than usual provisioning rates. Financial sector supervision is not yet able to proactively detect and address emerging risks. The failure of a bank and a microfinance network in 2015 confirmed the lack of

appropriate powers to deal with crisis situations. There is no special resolution regime for financial institutions, nor any deposit insurance scheme.

26. Madagascar's Microfinance Institutions (MFIs) have experienced rapid growth, though some institutions face governance issues and the sector will need to consolidate further. The number of individual accounts at Madagascar's 22 MFIs has increased from 0.4 million in 2009 to about 1.4 million in June 2016. While most MFIs have until recently focused on reaching the urban SMEs, efforts are now under way to reach micro enterprises as well as more remote rural locations. The rapid growth of the sector has however come with a deterioration of credit portfolio quality at some MFIs. The Malagasy financial sector supervisor (Commission de Supervision Bancaire et Financière, CSBF) has identified multiple institutions facing financial difficulties and a consolidation of the sector is expected.

27. Fiscal policy is moving to an increasingly expansionary stance. The 2016 budget deficit is estimated at 2.1 percent of GDP. The Government has continued its efforts to clear arrears payments, which were largely accumulated during the crisis period, and as more resources become available, public investment is expanding.

28. The changing fiscal policy direction is underpinned by efforts to increase fiscal space and spending on priority areas. The 2016 and 2017 budgets place emphasis on increasing fiscal space through enhanced revenue collections and improved efficiency of expenditures. Key priority areas include infrastructure, the social sectors, good governance and rural development. In 2017 the budget to the social sectors, including water, population, health and education ministries, is expected to increase by 17 percent in nominal terms compared to the revised 2016 budget. Capital expenditures rose from 3.5 percent of GDP in 2015 to an estimated 5.2 percent in 2016. Public investments are expected to continue to expand over the medium term from 8 percent of GDP in 2017 to 9.7 percent of GDP in 2020. This planned acceleration of public investments is expected to be largely driven by external financing. It will require a reinforcement of the public capacity to prioritize, plan, and execute public investments.

29. Tax and customs administration reforms are starting to yield results. Madagascar's tax revenues are among the lowest in the world as a share of GDP: between 2005 and 2012, they averaged 10.6 percent of GDP and hit a low of 9.9 percent in 2014, well below the 16.8 percent average for Sub-Saharan Africa (SSA). Tax revenues are estimated at 10.9 percent of GDP in 2016, thanks to reforms to customs procedures, including greater controls and collaboration with the tax administration authorities.

30. The structure of public spending is shifting towards lower subsidies. In 2016, the estimate for current expenditures as a share of GDP declined compared to 2015, a trend which is expected to continue in 2017. The reduction has been partly driven by a decline in subsidies and transfers, as fuel pump price subsidies were eliminated. However, at 3.1 percent of GDP in 2016, subsidies and transfers are still high, in particular to *Jiro sy Rano Malagasy* (Power and Water of Madagascar- JIRAMA), the public power and water utility, and to the Pension Fund. Unplanned pressures – such as a delay in rains feeding the main hydroelectric dam around Antananarivo – could result in higher subsidies to JIRAMA, which can crowd out priority expenditures and should be avoided. During the political crisis period, the pace of arrears accumulation increased, as outstanding payments to petroleum importers and power producers rose while value added tax reimbursements declined. Since 2014, steps have been taken to reduce existing arrears and avoid the accumulation of new arrears. These efforts include negotiating the current stock of arrears payments with suppliers, which was estimated to be 3.5 percent of GDP in 2015.

31. The above reforms are undertaken in the framework of a three-year Extended Credit Facility agreement between the Government and the IMF. Satisfactory performance under a six-month IMF Staff Monitored Program (SMP) and two rapid credit facility programs paved the way for the ECF. The program aims at reinforcing macroeconomic stability and promoting sustainable and inclusive growth. Its main areas of focus are: (i) promoting robust and inclusive growth; (ii) expanding fiscal space for investment and social spending; (iii) improving governance, and (iv) building capacity to support macroeconomic policy implementation and financial sector development. This ECF agreement was approved by the IMF Board in July 2016 for an amount of SDR 220 million (equivalent to about US\$295 million).

Table 1: Selected Macroeconomic Data

	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Actuals		Est.	Projected					
Real Sector									
Real GDP growth	3.3	3.1	4.2	4.3	5.3	5.9	5.5	5.2	5.0
GDP per capita growth	0.5	0.3	1.3	1.7	2.0	2.2	2.1	2.2	2.2
Inflation, consumer prices (annual %, end of year)	6.0	7.6	7.0	7.7	6.8	6.0	5.4	5.4	5.0
Public Finance (% GDP)									
Revenues, excluding Grants	10.1	10.4	11.2	11.6	11.8	12.2	12.7	13.1	13.5
of which: Tax Revenues	9.9	10.1	10.9	11.4	11.6	12.0	12.5	12.9	13.3
Grants	2.3	1.5	3.4	3.5	3.6	3.3	2.3	2.3	2.2
Total spending (commitment basis)	14.7	15.1	16.0	20.2	20.0	20.1	18.8	18.9	19.0
of which: Capital spending	3.9	3.5	5.2	8.1	10.2	10.5	9.4	9.3	9.1
of which: Transfers and subsidies	3.2	3.4	3.1	4.2	2.2	2.0	1.9	1.9	1.9
Overall balance (cash basis)	-2.4	-3.7	-2.1	-6.0	-5.2	-4.7	-4.0	-3.5	-3.3
Total public debt	35.8	41.3	38.7	41.3	42.2	43.2	43.5	43.9	44.3
Monetary Accounts (annual % change)									
Money Supply (M2)	9.8	15.8	21.1	16.1	10.8	13.1	17.5	17.9	15.8
Net Foreign Assets	6.1	7.9	14.8	1.6	1.7	4.0	6.9	7.3	5.4
Net Domestic Assets	6.5	8.8	7.8	15.2	9.9	9.6	11.0	10.9	10.6
of which: Credit to the Private Sector	9.7	9.4	4.7	9.0	8.6	9.0	9.2	8.4	7.7
External Sector (% of GDP)									
Exports of goods	20.6	21.0	21.6	22.3	21.5	22.2	23.8	24.5	25.0
Imports of goods	30.2	28.7	28.6	34.6	34.4	34.8	35.5	36.3	36.9
Current account balance	-0.3	-1.9	0.8	-4.7	-5.3	-5.0	-4.2	-4.1	-4.0
Foreign Direct Investment	2.9	4.5	4.5	4.4	4.4	4.4	4.8	5.1	5.1
Overall Balance	0.2	1.0	2.9	-1.0	-0.4	0.3	0.9	1.4	1.0
Foreign Reserves (months of imports)	2.5	2.9	3.9	3.4	3.4	3.5	3.6	3.7	3.7

Source: Malagasy authorities and the IMF, May 2017.

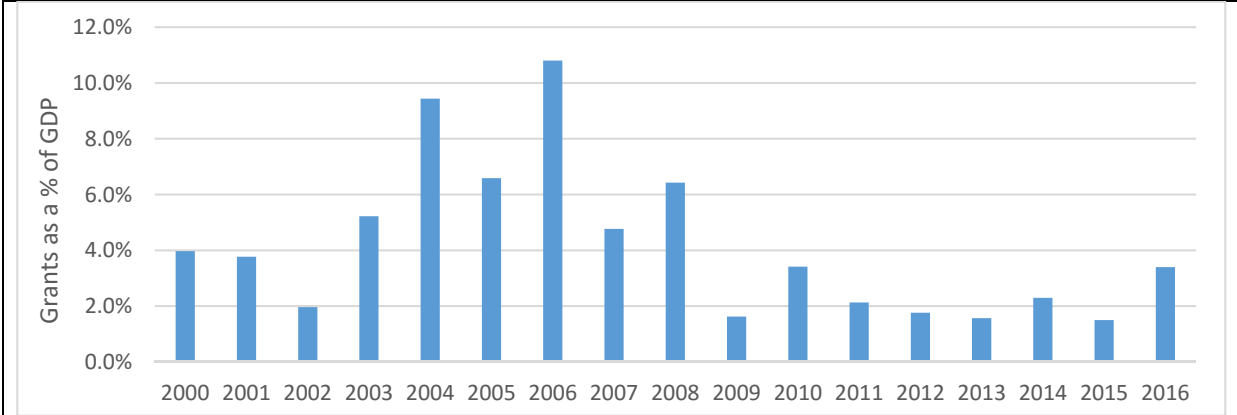
32. A first review of the IMF ECF arrangement concluded that satisfactory progress was made. Key structural benchmarks were realized, such as the collection of outstanding tax arrears, publication of PPP

contracts, and the submission of SOE financial statements to the auditors. While there was a slippage in the implementation of the automatic pricing formula for maintaining full cost-recovery fuel prices, there were no costs to the budget. The authorities are in the process of negotiating the fuel price structure with private petroleum operators following an in-depth review of the current pricing structure, which was supported by the World Bank. The review did make revisions to the macroeconomic framework and policy recommendations in light of recent developments which warranted additional financing and created balance of payments needs. These developments included economic damage from the most severe cyclone in 13 years, a drought which affected hydro-electric generation capabilities leading to increased subsidies to JIRAMA, and the partial privatization of Air Madagascar under which the Government would have to assume liabilities for past losses. Despite these developments, overall good progress was noted with the macroeconomic framework being assessed as satisfactory for budget support.

33. The Government’s fiscal policy stance envisages an expansion of debt financing, but the level of risk of debt distress remains moderate. At the end of 2015 public debt was estimated at 41.3 percent of GDP, most of which was international debt contracted on concessional terms. During the period 2011-2014 total debt was estimated at 33.5 percent of GDP on average. The projected increase in debt financing from the end of 2015 onward is primarily targeted to implementation of the Government’s public investment program. Anticipated financing from the December 2016 Donors and Investors conference (see below) is expected to be contracted largely on concessional terms. Similarly, public private partnerships (PPPs) are also being considered as a financing strategy for public investments. While debt and PPPs do provide a means for raising financing, such strategies are associated with heightened risks to public finance which will need to be carefully managed.

34. Following the successful Donors and Investors Conference for Madagascar held in December 2016, the Government is committed to using the resources in a way that limits the debt risk level. DPs announced a total support of US\$6.4 billion for the 2017-2020 period. This includes US\$2.1 billion of undisbursed commitments and US\$4.3 billion of new commitments. In addition, private sector operators announced US\$3.5 billion worth of investment projects. The Government has defined an investment path and criteria with the IMF to maintain the risk of debt sustainability at a moderate level. The level of grants flowing to the economy has fluctuated considerably. In the five years preceding the most recent political crisis (from 2003 to 2008), grants as a share of GDP averaged 7.2 percent, compared with an average of 2.1 percent during the crisis period (from 2009 to 2013). Following the crisis period, the level of grants has been modest, but this is expected to rise following the results of the Donors and Investors Conference.

Figure 2: The share of grants to GDP has fluctuated significantly



Source: World Development Indicators (WDI), Malagasy authorities.

35. The medium-term economic growth outlook is positive. Based on current projections, economic growth is expected to surpass the performance of recent years. The intensification of public works activities is a key growth driver, which may also spur activity in related sectors, provided investments are carefully selected on the basis of their expected economic and social returns. Madagascar’s participation in AGOA and other regional economic agreements should also invigorate growth as production accelerates. Provided climatic conditions remain favorable, the agriculture sector should continue to contribute to growth. The tourism sector could also expand if reforms and investments in the transport sector are implemented as planned. Over the medium term, there may be opportunities to expand mining activity, particularly if commodity prices for nickel and other raw materials rise. Such prospects may be further boosted by the revision of the Mining Code, which could enhance investor confidence.

36. This positive growth trajectory is dependent on maintaining political and macroeconomic stability, and implementing key reforms. Madagascar’s history has shown that in the past, positive growth periods have been followed by political crises. Avoiding this outcome requires commitment from all stakeholders to respect democratic processes and commit to stability. Ensuring that the benefits of growth are felt more inclusively will be critical in this endeavor. Concretely, this requires scaling up pro-poor expenditures including in those areas which are the least well-served, improving the productivity of sectors such as agriculture and livestock which engage a large proportion of the poor, and generating jobs through private sector-led growth.

2.3. Poverty Profile: Poverty runs deep and is persistent

37. The most recent poverty analyses⁷ show that Madagascar made little progress in improving the welfare of the poor between 2001 and 2012. Since 2001, Madagascar has seen two political crises in addition to disruptions in access to markets for textiles and manufacturing exports, severe climatic shocks, and pronounced global food price fluctuations. Against this backdrop, the headcount poverty rate declined slightly over the 2001-2012 period, but it remains exceedingly high at 70.7 percent in 2012.

Table 2: Poverty trends from 2001 to 2012

Year	2001	2005	2010	2012
National poverty line				
Extreme poverty	60.5	59.8	58.3	58.2
Absolute poverty	70.8	73.2	71.7	70.7
Urban	34.1	40.8	29.8	35.5
Rural	77.7	79.6	80.1	77.9
International poverty line				
Poverty line of US\$1.25/day PPP	77.5	80.7	79.1	78.2
Poverty line of US\$2/day PPP	88.9	92.7	90.8	91.2
Poverty line of US\$1.90/day PPP	68.7	74.1	81.8	78.8
Poverty line of US\$3.10/day PPP	84.1	89.9	92.9	90.5

Source: *Enquêtes Périodiques auprès des Ménages (Periodic Households Surveys - EPM) 2001, EPM 2005, EPM 2010, Enquête Nationale du Suivi des Objectifs du Millénaire pour le Développement (National Survey of Millennium Development Goals - ENSOMD) 2012.*

⁷ World Bank (2016). “Recent Trends and Analytical Findings on the Causes of Madagascar’s Persistent Poverty.” It uses household survey data from EPM 2001, 2005, 2010, and ENSOMD 2012. Also see World Bank (2014). “Face of Poverty in Madagascar: Poverty, Gender, and Inequality Assessment.” The next household survey is expected to take place in 2018, following the census.

38. Inequality rose between 2005 and 2012, but remains modest relative to other African countries.

The Gini coefficient increased from 38.9 to 41, compared to a SSA average of 43.8. Inequality in Madagascar is not associated with much wealth at the top of the distribution but with a relatively higher inequality among the bottom 90 percent than in other poor countries – that is, different levels of deprivation. The poverty gap index, which measures the average shortfall in consumption as a percentage of the poverty line for those falling below it, also stayed relatively flat, increasing just slightly over the period 2005-2012 from 31.3 to 32.2, after falling from 35.9 in 2001.

39. Poverty is significantly higher in rural areas, where agriculture⁸ is the main source of income.

Close to 80 percent of Madagascar's population lives in rural areas, and rural poverty rates are nearly twice as high as in urban areas. Extreme poverty is more pronounced in the southeast of the country, whereas the capital region had a notably lower incidence of extreme poverty. Agriculture is the main sector of employment of the household head for the bottom 80 percent of the country, with only the fourth and fifth consumption quintiles engaged in large numbers in services, manufacturing, and public administration. The incidence of extreme poverty is higher among female-headed households, which make up one-fifth of all households. Their households are more vulnerable as they own less productive assets: on average, they have one year less schooling, they cultivate just over half the acres of land that male heads cultivate, have three to four times fewer large livestock, and almost two times fewer small livestock.

40. Low connectivity and adverse government policies have led to a decline of agricultural returns.

First, the poor became more isolated from markets and services as transport conditions worsened. The average time to reach food markets increased from almost two hours (2005) to close to two and a half hours (2010) for the poorest quintile and the average real price to transport goods (in particular, a 50kg bag of rice) rose by 42 percent. Second, government policies designed in 2007 to stabilize rice prices in the face of sharply rising world prices depressed the domestic producer price disproportionately, intensifying rural poverty. While these measures kept the price of rice relatively stable for urban-based consumers, producers – who were also increasingly cut off from demand centers – were largely unable to benefit from rising world prices.

41. Extreme climate events have aggravated welfare fluctuations. Between 2005 and 2010, increased severity of weather shocks was the most important cause of declines in well-being for those at the bottom of the consumption distribution. In 2012, as many as 28 percent among the poorest reported being most adversely affected by drought, cyclone, and late rains. Those climatic shocks, combined with a decline in the profitability of agriculture, explain the decline in welfare in the bottom two quintiles of rural households between 2005 and 2010. For the poorest households, consumption declined by an average of 3.1 percent between 2005 and 2010, as the returns to their assets fell by 6.9 percent.

42. To cope with those adverse shocks, households shifted their income generating activities and sought secondary employment in non-farm enterprises. Primary and secondary employment in services in particular rose, especially self-employment. Despite these efforts, business and employment opportunities outside of agriculture were not sufficiently available or remunerative to fully offset the welfare losses.

43. Gender-related barriers affected women's ability to cope with shocks, operate higher productivity enterprises, find jobs, and earn wages commensurate with those of men. In 2010, women

⁸ Agriculture encompasses livestock and fishery activities.

had more difficulty securing employment off-farm when agricultural conditions worsened, thus experiencing higher rates of under-employment. Although female-headed households are not consistently poorer than male-headed ones, when educational attainment, region, and urban milieu are taken into account, men earned 37 percent more than women in the labor market in 2012. More than two thirds of women have a low-skilled activity against one third of men. Female entrepreneurs are also less likely to own and operate a multi-worker micro-enterprise, and more likely than men to own and operate a less profitable single-worker activity. According to the 2013 Enterprise Survey, women relied on credit as much as men but they were more likely to report access to credit as a problem. The Survey also indicated that only 20 percent of firms have majority female ownership and 28 percent of firms have a female top manager.

44. Of all household and community-level factors, those that are most predictive of higher welfare are electrification, off-farm employment, and proximity to urban areas. In addition, in urban areas, having an education is predictive of higher welfare; and in rural zones, greater land areas and higher paddy prices are important predictors.

Table 3: Key predictive variables of higher welfare in order of importance

Nationally:	For agricultural households only:
1. Living in a community with high levels of electrification (with more than 27 percent of households having electricity);	1. Higher cultivated land;
2. Having a university-educated household head;	2. Proximity to the nearest major urban center;
3. Having a literate head of household;	3. Living in a community with higher levels of electrification;
4. Proximity to the nearest major urban center;	4. A lower percentage of revenues from agriculture; and,
5. Higher prices for paddy rice; and,	5. A higher price of paddy rice.
6. Higher livestock holdings.	

Source: World Bank, 2016.

2.4. Development Challenges: Lifting rural incomes and supporting urbanization

45. The above findings point to a few courses of action to reduce poverty and boost shared prosperity. First, the greatest impact on poverty will come from an increase in agricultural productivity and in the development of productive off-farm opportunities. The poverty analysis presents evidence that these economic activities are constrained by the access to electricity, the level of education and human development, and the difficulty in accessing nearby urban centers/markets. Business surveys shed light on an additional set of limitations that would need to be addressed to further foster the development of private sector activities: a challenging investment climate characterized by limited and expensive access to finance, an unpredictable justice system, and competition skewed by the privileged treatment given to some operators. The country can tackle those challenges through policy reforms and investments in infrastructure and human development. However, those investments will require the state to mobilize additional resources and to manage them with a tight discipline.

46. Progress in poverty reduction will be sustained only if the political situation remains stable and if the country adapts to climatic risks. First, the country needs to pursue more forcefully its efforts to decentralize and to re-balance decision-making and resources between the center and the “periphery” (i.e., the decentralized entities – regions, districts, communes, *fokontany*). Such decentralization would help manage potential tensions and would help deliver better services to local communities with greater accountability. Second, since extreme weather events can have the largest impact on the poor’s welfare and it is predicted that those extreme weather events could worsen with climate change, it is critical that

the state implements risk management strategies at the national and local levels and develops financing instruments.

2.4.1. Improving agricultural productivity through a more integrated management of natural resources

47. Raising agricultural, livestock, and fishery productivity through sustainable practices will have the greatest impact on poverty reduction. Four out of five Malagasy nationwide depend directly on natural resources, particularly land, water and forests, for their livelihoods. Most households engage in subsistence farming (rice, cassava, maize), with low levels of productivity. Since 1960, value added per capita in agriculture has fallen by an average of 1 percent per year. One of the reasons for low productivity is the unreliable water availability due to limited bulk water infrastructure and obsolete irrigation infrastructure: although renewable water resources are estimated at 337 km³/year – almost 15 times the total water required for the development of the irrigation potential – water scarcity is widespread across all water-using sectors (agriculture, industry, households, etc.). Livestock also plays an important role in sustaining rural livelihoods but its productivity is low due to inadequate fodder production and pasture management, poor animal health and ineffective disease control, and genetic depletion.

48. Agricultural productivity could be increased through three important pathways, namely (i) by ensuring land tenure security to increase incentives for agricultural investment and improved access to credit; (ii) by promoting the use of fertilizers (and other inputs), irrigation, and mechanization to increase yields and agricultural output; and (iii) by strengthening the links between agricultural production and nutrition to improve the health status of rural households which, in turn, is essential to ensuring the productivity of agricultural labor. Land tenure security has proven to be particularly problematic: although Madagascar has been at the forefront of developing a decentralized system of land certification that is quick and affordable for smallholders, its implementation has been opposed by the central land administration. In addition, the allocation of large plots to investors for commercial agriculture has at times created disputes that have then been used by politicians to fan tensions.

49. For the increase in productivity to be sustainable, the approach will need to integrate forest resources management and put a stop to the continued depletion of those resources⁹. Indeed, to date, increases in production in Madagascar have mainly been achieved through increases in the area under cultivation and will not be sustainable over the longer term. The main causes of deforestation and forest degradation remain slash-and-burn agriculture¹⁰, collection of fuelwood, and charcoal production¹¹. Continued deforestation will hinder major potential drivers of inclusive growth, such as agriculture, fisheries, and the tourism sector. The future of the tourism sector, which is estimated to have brought some US\$0.6 billion of revenue and employed 230,000 people¹² in 2013, is being compromised by the high rate of deforestation, degradation, poaching of precious timber and other endemic species, and the degradation of coastal environments.

50. Improving the sustainable management of forest resources can in fact contribute to economic growth and local livelihoods. The current practice of illegally harvesting precious woods deprives the

⁹ According to the latest 2014 deforestation analysis (carried out under the Additional Financing for the third Environment Program), deforestation was estimated to be 1.6 percent per year for the 2010-2013 period compared to 1.2 percent per year from 2005 to 2010.

¹⁰ Slash and burn accounts for 80 to 95 percent of total estimated deforestation.

¹¹ Fuelwood collection accounts for 5 to 20 percent of deforestation.

¹² World Travel and Tourism Council website: www.wttc.org.

Government of millions of dollars of potential tax revenues, which a sustainable timber industry could generate, and feeds a trafficking economy that has wide socioeconomic and political consequences. By cutting an important element of national wealth, the country is depriving itself of an important poverty reduction lever. Of the estimated US\$220 million of timber revenues in 2009, the largest portion was captured by a handful of exporters. Local communities benefited only marginally through remuneration for logging (US\$5/log) and transportation. The illicit harvesting of precious woods illustrates how poor governance can erode the country's asset base with no development return to the country as a whole and even less benefit for local communities in affected areas.

51. Smallholder producers could also increase their income and be more resilient to shocks by participating in commodity value chains serving domestic as well as export markets. Value chains with growth potential include spices and essential oils for export markets (cloves, vanilla, pepper, other spices), fruits and vegetables for export markets (lychee, green beans, asparagus), staple crops for the local market (rice, potato, onion), ingredients for animal feed (maize, soya), and livestock (dairy, beef, poultry). The main constraints that prevent these value chains from further developing include: lack of skills and knowledge among producers, outdated production technology (e.g. old varieties, ageing tree stock, and poor husbandry practices), inadequate assembly and marketing capacity among producers and market intermediaries, processing technology limitations, severe rural infrastructure deficiencies, and inadequate public services such as extension, veterinarian services, quality assurance, traceability and food safety. Opportunities for private investment in these value chains exist, but their feasibility often requires complementary public investments and further capacity building of the private sector players. If well targeted, public investment and value chain development would result in increased farm and non-farm employment and improve overall sustainability.

52. The fisheries and seafood sector is also a key contributor to both local livelihoods and national growth but it could perform better. With 5,600 km of coast, a maritime Exclusive Economic Zone (EEZ) covering over 1 million km², and more than 117,000 km² of continental shelf, Madagascar is endowed with substantial marine and coastal resources. Fisheries represented 2 percent of GDP in 2010 and 13 percent of exports. An estimated 500,000 people work in the fisheries and seafood sector, the vast majority of whom are in the small-scale sector and poorly trained. The fishing communities are often the most marginalized populations and have limited access to basic social services and sufficient infrastructure to strengthen human capacity and sector development. Fish products also play an important role in food security and nutrition, contributing about 20 percent of animal protein consumption.

53. In the absence of a proper management system, fisheries stocks will continue to be exploited beyond sustainable biological, social and economic limits. The fishery sector's share of GDP has decreased from 7 percent in 2006 to 2 percent in 2010 due to overfishing, habitat destruction (mostly mangroves), pollution, climate change, and harmful fishing practices. Catches are being largely unreported, stock assessments are rare, economic data are limited. The total illegal catch is estimated at around half of the entire sector's legal production. Without proper management, total and individual catches will decrease as revenues and profits, and ultimately jobs, livelihoods, food security and nutrition will be impacted.

54. There is great potential for developing high-value export value chains but for small operators to participate in those value chains will require some enabling public investment. The main exports come from the local industrial shrimp fisheries while the tuna fisheries remain dominated by foreign vessels. Small-scale operators have limited access to lucrative markets due to limited knowledge of good

practices, adequate infrastructure and access to energy and cold technology, and proper sanitary and traceability arrangements.

55. Improving women’s access to more and better jobs in agribusiness, through the removal of barriers to labor force participation and better access to assets can promote sustainable inclusive growth opportunities. Women represent 53 percent of the agricultural population: they are responsible for producing 80 percent of food crops and are in charge of nearly 90 percent of agricultural processing activities. However, compared to the national average, female-headed households cultivate on average smaller plots and thus female-headed households’ average agricultural revenue is about 43 percent less than male-headed households. Women also account for 21 percent of the fish-workers and thus value chain enhancement would have direct impact on their empowerment and livelihoods.

56. Mining has also become an important pillar of Madagascar’s economy, and could also provide a massive boost to development if managed sustainably. Madagascar’s extractive sector has been dominated by artisanal and small-scale mining (ASM) of gold and precious and semi-precious stones. These largely informal activities continue to provide livelihoods to an estimated 500,000 people, although often in dire conditions, and should contribute to local government revenues. Since the mid-2000, two world-class industrial projects – one in ilmenite (US\$930 million invested by QMM) and the other in nickel and cobalt (US\$7 billion by Ambatovy) – have transformed the sector and significantly added to its strategic value. However, given the drop in commodity prices and the weak investment climate, no other large-scale mining project has been firmed up. A reform of the mining and petroleum codes has been launched, with the objective of maximizing revenues accrued from extractive industries. However, the Government will need to undertake in-depth governance reforms to attract serious operators and new investments in exploration. Madagascar has been participating in the Extractive Industries Transparency Initiative (EITI) since 2007 and publishes annual EITI reports on mining revenues. The country would benefit from reform that would ensure that revenues benefit the population, support the formalization of ASM, and reduce social and environmental risks. If properly managed, the sector could reach a significant magnitude, providing a substantial contribution to the country’s development, and supporting livelihoods of thousands of rural poor.

2.4.2. Unlocking productivity of labor-intensive sectors by improving the investment climate, enhancing access to finance, and building resilient infrastructure

57. The private sector is and will be the engine of growth in Madagascar. The country has diverse endowments, and the private sector – though small – is diversified: manufacturing represents close to 15 percent of GDP; wholesale, retail, and trade represent another 15 percent; and transport and storage account for almost 25 percent of GDP. The return to constitutional order and apparent political stability are slowly leading to a revival of investments. Madagascar’s growth potential – from subsistence agriculture and informal micro, small, and medium enterprises (MSMEs) to large-scale value chains (agriculture, livestock, fisheries, textile, and extractive industries) and services (tourism, call centers) – can be unleashed by addressing a series of common constraints related to the prevailing business environment, limited access to finance, and crumbling infrastructure.

58. Maintaining political stability and strengthening the justice system are by far the most important conditions needed to foster private sector development. The 2013 Enterprise Survey pointed to a series of governance weaknesses as handicapping private sector activity: nearly half of all firms interviewed considered political uncertainty as the most severe constraint; 45 percent of firms were expected to give gifts to secure government contracts; and crime, theft, and disorder ranked third in the

list of most pressing constraints. These show how severe the issues of political stability and corruption weigh on firms' minds. Investors also expressed little trust in the justice system, reflecting a strong perception that laws are not enforced equally. The incidence of the Grant Index¹³, at around 25 percent, is well above the SSA average of around 20 percent.

59. Access to affordable financial services is the third most problematic factor for doing business, after political instability and corruption¹⁴. Financial depth is low in Madagascar: domestic credit to the private sector represents 13 percent of GDP and deposits are 16 percent of GDP¹⁵. Only 14.5 percent of the firms in the 2013 Enterprise Survey reported having bank loans or a credit line. In 2014, merely 8.6 percent of adults had an account (with a financial institution or mobile money service) compared to an SSA average of 34.2 percent¹⁶. Of these, only 5.7 percent had an account at a financial institution (versus an SSA average of 29 percent). Only 2 percent borrowed from a formal financial institution, despite 40 percent of adults declaring having saved money and 57 percent declaring having borrowed money (of which almost 50 percent from family and friends). There are no significant differences between men and women in their use of financial services, except that slightly fewer women reported having saved money.

60. The lack of risk mitigation tools, weak legal frameworks, poor financial and non-financial infrastructure and a lack of efficient low-cost delivery mechanisms hinder banks and MFIs from expanding their services to the unserved population, especially outside of urban centers. The reach of financial services is limited: there are only 2 branches of commercial banks and two ATMs for 100,000 inhabitants¹⁷. Data from the Financial Access Survey show a rise of 40 percent in the number of mobile money agents to reach 76 per 100,000 adults in 2015. Similarly, mobile money accounts have increased by over 30 percent and mobile money transactions by nearly 40 percent over the last year to reach 2,033 per 1,000 adults. Still, mobile accounts remain on the low side compared to SSA levels (4.4 percent of adults in Madagascar versus 11.5 percent in SSA). The 2016 e-money law should open new opportunities and increase access. The expansion of mobile money would also require Information, Communications and Technology (ICT) services to become available and affordable for all citizens regardless of geographic location and socio-economic status. While network coverage has expanded greatly, mobile penetration is only half of the 80 percent regional average, and broadband penetration – which contributes twice more to GDP growth than mobile penetration¹⁸ – was only about 5 percent in 2015, largely as a result of high prices.

61. Providing reliable electricity in a financially sustainable way and to a larger number is a leading priority for growth. Only 13 percent of the population had access to electricity in Madagascar in 2016, with an estimated 39 percent of the population in urban and peri-urban areas and about 5 percent of the population in rural areas. These rates have not improved over the years due to the continuing deterioration of the sector's financial situation. The quality of service is poor too: Madagascar ranks 185 out of 190 countries on the latest Doing Business Report's "Getting Electricity" indicator. Firms have to wait 450 days to obtain a new electricity connection and those who are already connected experience over 6.7 power outages per month for an average weekly duration of about 2.5 hours. The average firm loses the equivalent of 7 percent of its sales because of power outages compared to 6 percent in Zambia and 1 percent in South Africa.

¹³ 2013 Enterprise Surveys: Madagascar Country Profile.

¹⁴ 2016 World Economic Forum (WEF) Executive Opinion Survey.

¹⁵ Global Financial Development Database.

¹⁶ Global Findex Dataset.

¹⁷ Financial Access Survey.

¹⁸ IFC-WB Broadband Initiative.

62. The electricity sector position has been deteriorating for several years. In 2016, about 58 percent (or 171 megawatts (MW) of the country's power generation relied on inefficient generators powered by imported fuel with the remaining 42 percent of capacity (or 124 MW) being provided by hydropower plants. The cost of thermal generation has been rising due to the utility's common practice of awarding expensive contracts for the installation and operation of power plants on an ad-hoc and non-competitive basis. Furthermore, with underinvestment in grid extension and rehabilitation, both electricity access and service quality have been steadily deteriorating as well. Urban areas are increasingly affected by this situation, as most of the distribution assets of the capital and major towns in Madagascar were installed in the early 1980s and are now reaching the end of their lifetimes.

63. There is strong potential for developing renewable sources of energy to reduce production costs and support access expansion. Madagascar possesses enormous potential in renewables, particularly hydroelectric resources that are estimated at 8 gigawatts (GW) of which only 160 MW is currently being utilized. There are about 1,500 untapped hydro sites ranging from 10 kW (or less) to 600 MW located throughout the country. With an average solar irradiation of about 2,200 kilowatts hour (KWh) /m²/yr and average wind speeds of up to 7m/s in many parts of the country, Madagascar also offers considerable solar and wind energy resources. Although this potential has not been fully assessed, it could provide an estimated 200 MW of additional solar- and over 100 MW of wind-powered generation capacity. The development of this renewable capacity is limited however by access to land, lack of inter-connectivity to the grid, and the financial and operational shortcomings of JIRAMA. On a more decentralized basis, hybrid solar solutions are being developed for sub-urban and rural areas but such projects are limited by local grid capacity and purchasing power.

64. Substantial private sector investment could be mobilized to develop Madagascar's renewable energy resources. However, in order to motivate private investors to provide equity, commercial debt and technical know-how for renewable energy development, the existing project pipeline will have to be de-risked and made bankable, and JIRAMA's current financial and technical performance drastically improved. The utility's dismal performance is based on a number of factors including JIRAMA's declining operational efficiency, increasing technical losses, insufficient revenue collection as well as costly and non-transparent fuel-sourcing practices. In 2014, JIRAMA's electricity losses escalated at 33 percent, roughly half of which were caused by technical losses with the other half stemming from poor bill collections and electricity theft. As a result, JIRAMA's current average revenue is only about US\$0.14 per kWh billed, compared to an average supply cost of US\$0.32 per kWh¹⁹. To overcome this substantial gap, JIRAMA continues to rely on Government subsidies (as much as US\$115 million in 2016) and non-payment of its fuel suppliers and private power producers.

65. A fourth constraint is the lack and poor quality of the transport infrastructure which limits access to markets and touristic sites. According to the Global Competitiveness Index, the quality of roads (on a scale of 1 to 7) in Madagascar is 2.2, it is 1.7 for railroads while air and port transport perform better (3.2). While road investment planning and maintenance is officially delegated to independent agencies, minimum repair and maintenance work fell short due to poor planning and management, combined with lack of resources. In 2012, half of the secondary roads and two thirds of tertiary roads – which are critical to the development of the agricultural sector and to the reduction of poverty in rural areas – were classified as being in “bad condition”; 88 percent of the primary roads were in “good” to “moderate” condition. In light of the projected increase in the intensity of rains due to climate change effects, road

¹⁹ Reflecting both operating and capital expenditures.

maintenance costs are expected to surge. The operation of the two railway networks is now endangered due to the poor state of the infrastructure and management problems, whereas those railways are intended to relieve the roads from heavy loads, reduce greenhouse gas (GHG) emissions, and provide access to markets for enclaved populations. The potential for PPPs in the road transport sector is limited in light of the low traffic. PPP prospects are brighter in the ports, railways, and air transport sectors, the latter being considered as one of the main bottlenecks to tourism development.

2.4.3. Investing in higher quality human development

66. Given that Madagascar wants to offer all Malagasy equal opportunities to reach their potential, it will need to invest in and revamp its basic services for health, nutrition, social protection, and education in order to expand access and improve quality. Investing in the Early Years has globally proven to be crucial for a country's social and economic development: beyond the immediate human gain, it would increase labor productivity and reinforce the country's comparative advantage in labor-intensive sectors. At this time, however, skills shortages are a sizeable impediment to private sector-led growth: one-third of the production employees in the firms included in the 2013 Enterprise Survey were unskilled. Low productivity, which undermines the country's cost advantage arising from low wages, is partly due to low and stagnant educational attainment, as well as poor health and nutrition.

67. On the health side, Malagasy face a number of risks throughout their lives²⁰. While there had been some gains in the reduction of overall child mortality prior to 2008, the infant mortality rate has stagnated since at 72 deaths per 1,000 live births. Maternal mortality ratio has been around 478 per 100,000 live births per year for the past eight years. Immunization coverage, a proxy indicator for the overall performance of the health system, decreased rapidly from an average of 80 percent in 2009 to 60 percent in 2013. Almost 30 percent of all deaths in Madagascar are still attributable to preventable and infectious and parasitic diseases, with the burden of disease falling disproportionately on the poor. In addition, the poorest regions carry the highest burden of neglected tropical diseases (NTDs) in the country.²¹ In 2016, 131 cases of plague and 665 new cases of leprosy were reported, often in remote areas. Over the past decade, non-communicable diseases (e.g., diabetes, high blood pressure) have been increasing in the population. Life expectancy has been steadily rising and stands at 65.5 years in 2015.

68. From a financing perspective, Madagascar spends less on health than three quarters of the SSA countries and the system is inequitable. Since 1995, the percentage of Total Health Expenditure in GDP has been around 4-5 percent with a downward trend in recent years, compared to a Sub-Saharan African average of 6 percent with an upward trend. In fact, between 2009 and 2013, 80 percent of public funding to the health sector was financed through external funds. Regular salary expenditures made up 84 percent of domestic financing in 2013, a level much higher than generally observed in low-income countries. This implies that the cost of most medical consumables is borne by the patient through cost recovery and thus a share of the population prefers not to seek health services because of their inability to pay. Further, there are major inequities in the distribution of human resources across services and across regions, with the greatest negative impact on the poor who access first-level primary care facilities.

69. Madagascar has the fourth highest chronic malnutrition rate in the world with 47 percent of all children 0-5 years of age stunted. Stunting rates range from 40 to 70 percent, with the highest rates in regions with greater food production (predominantly rice). This underscores that addressing malnutrition

²⁰ Data from the DHS 2003-2004, DHS 2008-2009, MDG Survey 2012-2013.

²¹ NTDs, such as soil-transmitted helminthiasis, lymphatic filariasis, and schistosomiasis, are responsible for school absenteeism. As many poor households are malnourished, NTDs and other illnesses further impact the overall well-being of the child.

means tackling issues beyond just caloric intake: behavior change to promote appropriate, diverse diets, healthcare, and access to safe water and sanitation as well as improved hygiene practices. Childhood stunting elevates the risk of child morbidity and mortality, with increased potential for intergenerational impact. In addition, stunting is associated with cognitive delays and low educational attainment. For every 10 percent increase in stunting at national level, the proportion of children reaching the final grade of primary school drops by 7.9 percent thus decreasing lifelong income earning potential and labor force productivity. In addition, rates of acute malnutrition or “wasting” are high in some parts of the country, particularly in the South which has been exposed to some extreme climate events. Moderately and severely wasted children have respectively 3 and 9.4 times greater risk of mortality than non-wasted children. A recent UNICEF analysis²² suggests that Madagascar’s economy loses approximately US\$740 million, or 7 percent of GDP, annually due to malnutrition.

70. Addressing the health and nutrition challenges from the youngest age will require focusing on strengthening the ability of the system to deliver an essential package of quality services, combined with removing demand-side barriers to utilization of services. The essential health package, which will have to be delivered through basic health centers and community services, focuses on interventions that have a high impact on maternal and child health and nutrition. Financial barriers to access will have to be addressed by removing out-of-pocket costs for essential medicines and services at facility level, strengthening risk-pooling and safety-net mechanisms.

71. Despite improvements, the education system still offers limited opportunities to children. Primary enrollment has been stagnating with an estimated 1.4 million out-of-school children in 2012. In international comparison, the out-of-school population is the fifth largest in the world. Four out of ten children in primary school drop out before the last grade. The primary completion rate was 69 percent in 2012 and 66 percent in 2015. There is no gender difference in enrollment across income-quintile or regions in primary education. A gender difference in access opens up at the secondary education level.

72. The key challenge is to raise completion of primary education with an emphasis on improving learning among primary students. The Early Grade Reading Assessment and the Service Delivery Indicators (SDI) learning assessment indicate that Malagasy children more or less read and calculate at the same low level as the average Anglophone African child. There are consistent and large differences between learners attending school in rural areas and those in urban settings. Students in private schools – which serve 18.7 percent of learners at primary level, mostly in urban and better-off settings – also tend to learn more. There are 1 to 3 percentage points’ differences between girls and boys in national and international learning assessments, with girls learning slightly more. Across the assessments, Malagasy children seem to learn mathematics better than reading (Malagasy and French). Further, there is limited access to Early Childhood Development (ECD), an important condition to raise the level of school readiness: only 14 percent of children attend pre-school.

73. To improve learning, multiple actions will be needed to raise the participation of children in pre-school programs, enhance teacher effectiveness, adapt the language of instruction, and expand the availability of didactic material. Teacher effectiveness and management offers several opportunities for improvement, but is neither administratively nor politically easy due to the fact that 65,000 teachers out of 108,000 in primary education are short-term contract teachers hired by the parent-teacher associations (FRAM in Malagasy), only partially subsidized by the state, and with irregular salary payments. Around 80 percent of all teachers have received no pedagogical training. Absenteeism from the classroom stands at

²² UNICEF (2016), Nutrition Investment Case.

38 percent. In addition, only one in 10 students has a textbook, compared to the recommended norm of 1:1 textbook-to-student ratio. Finally, the language of instruction may need to be adjusted. While teaching in the first two years of schooling in Madagascar is in Malagasy (official language), the language of instruction in subsequent years is French. The vast majority of Malagasy children do not have the necessary oral vocabulary to understand reading and teaching in French (4,000 words), and the majority of teachers possess insufficient French competences to teach in French.

74. The Government invests about 17 percent of the national budget in education and could achieve better outcomes with this expenditure. Madagascar spends on average 3.1 percent of GDP compared to 3.7 percent in SSA developing countries. Primary education receives an average of 39 percent of the education budget. In addition to the authorities' ongoing efforts to increase spending for social sectors such as basic education, there are at least three ways to achieve better outcomes out of this public funding: (i) increase support to preschool (0.4 percent of the budget); (ii) increase the regularity of payment of teacher salaries; and (iii) empower school-based management, including by expanding the use of school grants.

75. The poor performance of health, education, nutrition, and sanitation services is compounded by persistently high fertility and population growth rates. The total fertility rate has been on a declining trend and stands at 4.35 births per woman in 2015. It is higher among the poor: women in the lowest wealth quintile have on average 2.5 times more children than women in the highest wealth quintile. The significant level of teenage pregnancy, at 163 live births per 1,000 women aged 15-19 years old, contributes to the birth of many low-weight children who are at greater risk of stunting. Further, the Malagasy population growth rate is 2.8 percent. The United Nations (UN) projects that the population of Madagascar will increase by approximately 50 percent, to 36 million people, by 2030. The anticipated increase would make the population share of children under 15 one of the highest in the world.

76. Poverty reduction and human development goals can be advanced through social protection mechanisms that are combined with health/nutrition, education and productive services. Effective social protection of the most vulnerable and poor population in Madagascar is largely absent: social protection expenditures as a share of GDP declined from 1.9 percent in 2008 to 1.1 percent in 2010, and this largely excludes the poor as it funds primarily expenses for public sector pensions. In recent years, the Government has established social safety net programs that promote human development and productive inclusion for about 100,000 households. These cash transfer programs are increasingly used to foster productive inclusion, improve climate resilience and strengthen child development, thus providing the glue between the supply of services and citizens' demand.

77. To be most effective, investments in human development will need to take into account psychological, social, and cultural influences that affect decisions and behavior. The 2015 World Development Report (WDR) on Mind, Society and Behavior²³ stresses that seemingly trivial features of everyday life can significantly compromise people's ability to take optimal decisions and actions on how they use the little resources they have – particularly among extremely poor people. Recent field investigations²⁴ in the context of the ongoing cash transfer programs reveal a large gap between participants' declared intentions to save more, invest in productive assets and support their children's educational and nutritional wellbeing and their actions. Many beneficiaries think they have little influence on their life outcomes, and that being poor is incongruous with hoping for a better future. Participants have a limited sense of the possibilities that additional resources open up for them and often fall back to

²³ World Bank Group. 2015. World Development Report 2015: Mind, Society, and Behavior.

²⁴ Undertaken by the nonprofit behavioral design organization *Ideas42*.

what they have always done or what they see peers doing. For example, participants in nutrition-sensitive cash transfer programs were observed to default back to the prevailing practice that “more rice is better”. Innovations like interactive plan-making tools, self-affirmation exercises, reminders and community accountability mechanisms are being adopted to enhance the effectiveness of these cash transfer programs. Initial evaluations show promising results in galvanizing households toward productive activities, improving school and health/nutrition services attendance, and changing the mindset of extremely poor households towards becoming agents of their development.

2.4.4. Mobilizing domestic resources and devolving responsibilities to the local level

78. Through a more effective administration, Madagascar will be able to mobilize more domestic resources and thus finance its development priority programs. Tax policies are generally sound, but administration has been lax. The 2015 Tax Administration Diagnostic Assessment Tool (TADAT) evaluation pointed out that basic principles such as accuracy of taxpayers’ information and knowledge of the potential taxpayer basis are not respected. On customs, a mirror statistics analysis for imports in 2014 showed that the customs revenue loss could amount to US\$96 million or 30 percent of the collected customs revenues (excluding oil imports). The priority for the Government is to expand the tax net and broaden the tax base. Setting up an efficient identification of taxpayers and improving oversight systems based on risk assessment are also paramount to reduce revenue leakages for both tax and customs administrations. Recent efforts to improve the procedures, the financial and technical means, and human resources management are starting to pay off and will need to be sustained if Madagascar is to fulfill its estimated tax potential of 15-17 percent of GDP.

79. The limited capacity to mobilize domestic resources particularly handicaps local governments in their ability to deliver services to their communities. The central government transfers only 5 percent of the total revenues to decentralized entities and often, these transfers come late in the year. In addition, it is estimated that local governments collect only 30 percent of their potential revenues – from mining, land titling, fisheries and forest – due to unclear legal frameworks, a lack of knowledge of the tax basis and taxpayers, and poor awareness and enforcement. The lack of resources limits the capacity of local governments to deliver services such as schools, health centers, and rural roads maintenance. Helping local governments raise additional resources could bring a more equitable development across the country, thus reducing one of the sources of fragility. It could also buffer them from any crisis occurring at the central level.

80. The policy and institutional framework is in place to support the devolution of powers and resources to local entities. The Local Development Fund (LDF) was established in 2008 to channel additional resources to local governments for local public investment projects and since 2012, the Local Governance Index measures local governments’ performance. Local government officials and staff can be trained at the National Institute for Decentralization and Local Development. These institutions were not able to carry out their mandates fully during the political crisis period (2009–2013), when financial resources remained particularly tight, but are now being reinvigorated. Since 2016, budget appropriation for grants to communes have increased fivefold, confirming the Government’s will to support decentralization.

81. Mechanisms have also been tested to ensure greater accountability at the local level and could be scaled up. Under a closed IDA-funded project, an innovative approach for districts was developed that integrated revenue mobilization, decentralized land management (as one source of local financing), participatory budgeting, and social accountability tools. This approach, which is known as the Communal

Operation of Integrated Support, has been largely adopted by other projects supporting local governments, covering now 30 percent of the 1,695 existing communes.

82. In addition to greater resource mobilization, the authorities will need to improve the efficiency of their spending through better public investment planning and better budget oversight. Authorities can increase the effectiveness of public spending by (i) putting in place a more rigorous process to assess and select investments on the basis of their expected economic and social returns; and (ii) enforcing rules for procurement to ensure value for money. Budget oversight could be improved by auditing and publishing the Government financial accounts, cleaning up the extra-budgetary procedures tolerated during the crisis, and operationalizing the system to investigate, prosecute and sanction wrongdoing by civil servants. Some progress has been made in this area since the end of the crisis.

2.4.5. Preparing for urbanization, adapting to climate change, and addressing weather risks

83. By 2040, as much as half of the population could live in urban areas²⁵. Close to 7 million Malagasy live today in urban areas, compared to 2.8 million in 1993²⁶. Cities account for approximately three fourths of the national GDP, with the capital Antananarivo contributing as much as 50 percent. This rapid urbanization – with an urban population growing at an annual 4.7 percent rate – is driven by population growth, a strong rural-urban migration and urban-urban migration (from secondary cities to Antananarivo). The lack of employment opportunities for this growing population has, however, led to a concentration of poverty of more than 66 percent in Antananarivo, compared to a national urban poverty rate of about 35 percent. It is estimated that about 70 percent of settlements in Antananarivo are informal and below standards. Slums dwellers are often unskilled laborers with extremely low revenues whose little economic opportunities contribute to perpetuating the degradation of their living environment. This precariousness has led to a range of additional issues, such as the growing phenomenon of crime and violence, which threatens citizens’ security and imposes large social and economic costs – often disproportionately affecting the poor. This degradation in urban conditions also creates an important risk to the country’s stability: social discontent in poor urban neighborhoods has been used in the past for political goals.

84. Unless the authorities prepare for this urbanization, this movement will accentuate the pressure on limited infrastructure and deficient local services. Challenges and shortcomings can be observed both in the unplanned nature of the growth of cities, as well as the mismanagement of some key urban infrastructure such as water supply, liquid and solid waste, storm water drainage, transportation, and overall resilience to natural disasters. The consequences of these poorly functioning urban systems are exemplified by the 2015 flood emergency in Antananarivo. Madagascar has one of the lowest SSA access rates to drinking water and sanitation: 12-percent access rate for improved sanitation and 52 percent access rate to an improved drinkable water source. The average access to potable water in urban cities decreased from 63 percent in 2005 to 61 percent in 2012. For sanitation, national data shows a decrease in access from 53 percent to 46 percent between 2005 and 2012. Several cities are highly exposed to cyclones and floods. The increasing concentration of people in those urban areas requires the national and local authorities to reinforce their disaster risk management policies and practices.

85. Madagascar is one of the world's most exposed and vulnerable countries to climate change, with the poor being most affected. Recent disaster risk models show that Madagascar faces Average Annual

²⁵ United Nations Department of Economic and Social Affairs (2014). “World Urbanization Prospect 2014.”

²⁶ Data based on the 1993 census and projections.

Losses of US\$100 million for all combined hazards (cyclone, flood and earthquake) and that every year, there is a 10 percent probability and 5 percent probability that damages will exceed, respectively, US\$240 million and US\$600 million. The extreme weather risks are projected to become more acute in the future. Rainfall is expected to decline in the South of the country, while cyclone intensity is projected to increase by almost 50 percent, with important implications for agriculture, food security and infrastructure. A high percentage of households typically reports being adversely affected by drought, cyclone, and late rains, with this frequency typically higher for the poorest households. Between 2005 and 2010, increased severity of extreme weather events was the most important cause of declines in well-being for those at the bottom of the consumption distribution. Projections made using the IMPACT model²⁷ suggest that compared to a “no climate change” reference case, the number of people at risk of hunger will increase progressively during the coming decades, with the increase by 2050 ranging between 20 percent and 40 percent, depending on the climate scenario considered.

86. The South of the country epitomizes how existing social and economic tensions could be accentuated by climate change, thus fueling fragility. For decades, the central government has under-invested in the region which lags on many development indicators. Sources of livelihood are limited and the trafficking economy (around gem stones, gold, and cattle) has been flourishing. Insecurity has increased significantly in recent years with gangs of *dahalos* (cattle robbers) roaming around, terrifying local population, and clashing with national security forces who struggle to monitor this vast land. Driven by large-scale disruptions in atmospheric circulation and exacerbated by poor land-use practices, droughts are a common occurrence in the South of Madagascar, with some areas receiving less than 400 mm of rainfall each year. A drought has been affecting the South since 2015, posing a severe strain on subsistence livelihoods and human development. In mid-2016, it was estimated that 1.1 million people were experiencing food insecurity, with 45,000 children suffering from Moderately Acute Malnutrition. A combined drought response program of cash transfers linked to primary education, nutrition services and livelihood development is leading the way from largely humanitarian support in this region to a human and productive development approach²⁸.

87. The Government will gain from focusing on disaster preparedness and risk reduction and from developing risk financing instruments. Historically, Madagascar has focused on *ex post* response and recovery efforts, but there has been a growing recognition of the need to give equal attention to disaster preparedness, mitigation and prevention. Disaster risk management requires the authorities to adapt their rural and urban development strategies and implement policies that are more disaster and climate resilient. Madagascar has already adopted improved construction standards for key infrastructure – irrigation, roads, and schools. More can be done to increase the preparedness and financial resilience of national and subnational governments, businesses, households, farmers, and the most vulnerable against natural disasters.

III. WORLD BANK GROUP COUNTRY PARTNERSHIP FRAMEWORK

3.1. Government program and strategy for crisis recovery and development

88. The Government has demonstrated a commitment to address the consequences and the causes of the crisis in its 2015-2019 NDP. The NDP is candid about the governance challenges that have impeded

²⁷ The International Model for Policy Analysis of Agricultural Commodities and Trade (IMPACT) was created and is run by the International Food Policy Research Institute (IFPRI).

²⁸ The humanitarian response is supported by multiple partners including UN Agencies, USAID, WFP, CARE, Action Contre la Faim (ACF), EU and the Bank

the country's development for fifty years. The first and third pillars (see Box 1) in particular depart from earlier patterns and can potentially address some of the key drivers of fragility. They aim to reduce the sense of impunity that is rife among political and economic elites, to level the playing field for all private sector actors, and to advance decentralization as a way to re-balance the center-periphery dynamics while supporting inclusive and sustainable growth.

Box 1: The Five Strategic Areas of the 2015-2019 National Development Plan

(1) *Governance, Rule of Law, Security, Decentralization, Democracy and National Solidarity.* This objective will aim to strengthen state authority and build sound public institutions both at the Central and decentralized levels, thus allowing long term development actions;

(2) *Preserving macroeconomic stability and supporting development.* This will support actions to increase fiscal space, accelerate reforms in the banking and financial sectors, enlarge national markets and develop international trade. This set of activities will constitute the foundation in securing not only strong growth but also sustainable development for all, with high impacts on women and vulnerable groups;

(3) *Inclusive growth and local roots of development.* Reforms should result in priority actions that would improve investment climate, support the development of the private sector, create decent jobs and focus on the development of strategic sectors (tourism, agriculture, fishery, extractive industries, strategic infrastructures);

(4) *Adequate human capital for the development process.* A strong nation requires better management and equitable and sustainable development of human capital through access to health and education services, access to potable water, strong social protection mechanisms for vulnerable groups and promotion of cultural values and sports;

(5) *Valorization of natural capital and strengthening resilience to natural disasters.* This should not only establish a strategy and a structure that would preserve natural capital, reduce negative impacts of climate change and reinforce the Malagasy population's resilience but also articulate how natural resources can support economic and social development.

3.2. Proposed WBG Country Partnership Framework

3.2.1 Overview

89. This CPF aims at building on the current relative political stability to help address structural fragilities that hamper sustainable human and economic development in Madagascar. Based on the lessons from the 2011 WDR on Conflict, Security, and Development, overcoming fragility depends in large part on public institutions that can deliver core state responsibilities such as security and justice, economic management and revenue collection and that can mediate state society relations at all levels of society. WBG programs can also help lay the foundations for long-term institutional development by promoting equitable access to basic infrastructure and service delivery, and stimulating private sector growth. The CPF will thus work through two Focus Areas to: i) increase resilience and reduce fragility; and ii) promote inclusive growth.

90. The first Focus Area, *increase resilience and reduce fragility*, will seek to increase the resilience of livelihoods in rural and urban areas and to expand the state's capacity to mobilize resources and deliver services at the local level with greater accountability. Experience has shown that Madagascar's cyclical crises tend to lead to a collapse of the central government and of the services they are expected to deliver, with local communities left to fend for themselves. Thus interventions will tackle multiple dimensions of vulnerability and will aim to build on the greater social cohesion found at the local level to reduce fragility risks and to deliver basic services. Through its engagement, the WBG will aim to strengthen human capital

starting from the youngest age, enhance resilience of livelihoods of exposed urban and rural inhabitants, reinforce the decentralized delivery of local public services, and promote transparency and accountability through citizen's engagement for more appropriate and efficient public policies.

91. The second Focus Area, *promote inclusive growth*, will aim to facilitate and support the development of economic opportunities by the private sector in rural and urban areas. It will focus on improving the business environment and access to finance, boosting productivity in labor-intensive sectors that can generate employment opportunities (e.g., agri-business, tourism, fisheries) – particularly in rural areas and for women – and building infrastructure that currently constrains the development of economic activities and access to markets (energy, transport). Efforts will focus on building sustainability and resilience. This Focus Area will also support the capacity of the state to increase its fiscal space so that it can finance key public infrastructure and ensure basic service delivery to all, so as to support inclusive growth.

92. An expanded IDA resource envelope will enable the WBG to support the Government in breaking with past trends and tracing a new trajectory to achieve bolder targets. Within the two focus areas described above, the WBG has selected a few priorities in which it will invest over several years to achieve high impact. In particular, the WBG will work with the authorities and DPs to roll out an Investing in Early Years program with sufficient geographical and multi-sectoral breadth (education, health, nutrition, and social protection) to reduce chronic malnutrition and improve quality of learning, particularly in rural areas. Second, the World Bank will re-engage in urban development and will undertake major works on irrigation and sanitation canals that will transform radically poor neighborhoods in the capital, making them livable and more productive. Third, it will build on the Government's efforts to restore performance at the public energy utility JIRAMA and will support a massive expansion of energy access, including in rural areas. With IDA18 resources combined with private investments, it will seek to double electricity access from 13 to 25 percent of the population. Because these programs are considered to be critical for the country's development, it is conceived that (i) all additional resources that may materialize during the CPF period would be dedicated to these programs; and (ii) these programs will be sustained beyond 2021, over several CPFs.

93. The WBG will seek to optimize the range of financing and advisory instruments at its disposal, including the four facilities of the IDA18 Private Sector Window (PSW). The WBG would consider using these facilities for projects in energy generation (solar and hydro) and agriculture (livestock). Within this context, International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA) will be focusing on interventions that will unlock constraints, address uncompetitive behaviors, and promote sectors with high development potential – renewable energy, transport and logistics, agribusiness, and financial inclusion

94. In pursuing the two broad objectives, the program will integrate considerations towards promoting gender balance. Projects that invest in human development will give a prominent role to mothers, not only as beneficiaries but as active participants in community groups to discuss nutrition practices, family budget planning, design of community-investment plans to be supported through cash-for-work. They can be agents of change within their communities as “mother leaders” who promote nutrition and early stimulation among their peers. In addition, projects that seek to improve productivity in agriculture and fisheries – through training, extension services, irrigation investments, land certification, and financial products – will tailor their activities so that women can participate in training and consultations activities (e.g., the timing will be adapted so women can fulfill other household duties and are provided with child care), are supported in accessing extension and financial services, are

participating in community associations, are fully aware of their land rights and are encouraged to proactively register themselves as main owner or co-owner with their partner. IFC will also pay close attention to closing gaps between men and women in access to jobs and assets through its activities in agribusiness and in financial services, in line with its Gender Strategy Implementation Plan.

3.2.2 Lessons learned from past engagement in Madagascar and other fragile states²⁹

95. The current CPF builds on lessons learned from the implementation of the Madagascar Country Assistance Strategy (CAS) and the Interim Strategy Note (ISN). The 2009 unconstitutional change in power had led to the application of OP7.30, the WBG operational policy that guides engagement with *de facto* governments. During that period, Madagascar was classified as a fragile state as its Country Policy and Institutional Assessment (CPIA) fell below 3.2. The implementation of the CAS, that was expected to run from FY07 to FY11, was interrupted in 2009 and was replaced by an ISN for the period of FY12-FY13 which was discussed by the Board in February 2012. Despite efforts to re-direct the program, the Completion and Learning Review (see Annex 2) assessed the CAS and ISN as unsatisfactory in reaching their respective objectives.

96. The first lesson from the WBG engagement during the 2009-2013 period is one of realism on what can be accomplished during a crisis. The ISN overestimated what could be achieved under “crisis” conditions. Acknowledging that a scenario of renewed political unrest cannot be dismissed, this CPF integrates analyses of fragility drivers and puts greater emphasis on risk evaluation. Several of the sectoral interventions that are being planned under the CPF are in fact supported by reflections on the political economy of the stakeholders in those sectors. For example, this has already been the practice for ongoing work on tax and customs administration reforms. The CPF also pre-identifies objectives that might be hard to reach and activities that would have to be restructured (i.e., scaled down or expanded) if tensions were to flare up again.

97. The second lesson pertains to the importance of the WBG sustaining its support to the delivery of critical services to the poor at the local level, particularly through periods of crises. The disengagement of donors in 2009 worsened the impact of the crisis on the poor. The WBG approach during the ISN of sustained, albeit limited, engagement helped to reduce this impact by supporting delivery of basic services while preserving critical implementation capacity that has enabled a more rapid resumption of activities. Looking ahead, this CPF puts the greatest weight on strengthening the resilience of local communities by advancing the devolution of powers and resources to the local level and by reinforcing their capacity to collect local revenues, manage those funds in an accountable way, and deliver basic services, by helping farmers improve their productivity in a sustainable way and secure land rights, and by providing the very poorest with a safety net. By aiming to reinforce the regional and local institutions, development programs might be less vulnerable to political instability at the central level, while ensuring immediate results through flexible, cost-effective delivery modalities.

98. IFC will build on its successful re-engagement experience. In particular, using advisory services and supporting investment clients in Environmental, Social and Governance (ESG) practices as a first mover to remove investment constraints and prepare the clients/sectors has proven critical. IFC’s value chain approach allowed for the creation of investment opportunities while developing entire sectors. Leveraging on product innovation also enabled IFC to successfully re-engage in Madagascar. Moving

²⁹ Country Assistance Strategy, the Interim Strategy Note, the Completion and Learning Review, the FY14 Country Survey, and IEG Evaluation on Low-Income Fragile and Conflict-Affected States.

forward, IFC will deepen and scale up such approaches in order to stimulate markets and crowd in private capital. This involves pursuing systematically value chains approaches, convening external and internal stakeholders, ensuring support of ESG standards as well as fostering new products and solutions, while paying close attention to closing gaps between men and women in access to jobs and assets in line with IFC's Gender Strategy Implementation Plan.

99. The FY14 Country Survey, undertaken in mid-2014 among 101 stakeholders, also provides insights on the ways the WBG can have a greater impact. Opinion leaders had consistent views on the challenges that Madagascar faces and saw a clear role for the WBG in the following areas: governance, education, rural development, energy, and issues related to growth (e.g., jobs, private sector development). Specifically, the WBG was seen as the best institution for support to public financial management, education, and capacity building of state institutions. It received lower ratings for the priority areas of peace and stability, jobs, and governance. The WBG is perceived as a long-term partner that has satisfactory monitoring and evaluation, makes efforts to reinforce and use country systems, and provides implementation support. It would gain in impact if it could become more accessible and responsive. In particular, respondents noted that the WBG should gain in speed and flexibility.

3.2.4. Update on the IDA Turnaround

100. In February 2016, Madagascar was granted a special enhanced access to IDA resources under the Turnaround regime. This regime is accessible to fragile countries that are at a critical juncture in their development trajectory, have a significant opportunity for building stability and resilience, and are committed to reforms. Based on some early progress and a series of engagements made by the authorities, WBG management granted access to the IDA Turnaround Regime for the FY16-FY18 period. It led to a doubling of the annual amount of IDA that was available under the Performance-Based Allocation system (from US\$110 million to US\$230 million).

101. The IDA Turnaround resources were critical in leveraging other funds for Madagascar during the 2016 Donors and Investors Conference. The WBG announced a US\$1.3-billion commitment over a three-year period. This encouraged the African Development Bank (AfDB) and the European Union (EU) to up their commitments too. The combination of these assistance announcements as well as the Government's firm commitment to ensure a sound macroeconomic framework – underpinned by an ECF agreement with the IMF – heartened private investors. DPs pledged US\$4.3 billion in new commitments and private operators announced US\$3.5 billion worth of projects.

102. This increase in IDA resources enabled the WBG to focus its support to the government on a few priority areas – tax and local administration, integrated natural resource management, and the energy sector – and set the stage for a more rapid transformation of those sectors. This support is provided as a combination of investment financing, with some technical assistance, and budget support. For example, in the energy sector, the WBG approved in March 2016 a US\$65-million program on the *Electricity Sector Operation and Governance Improvement Project* that seeks to put the power utility on a path of rapidly improved operational and financial performance. It also pursued this objective through energy sector reforms supported by the programmatic *Development Policy Operation (DPO) on Public Finance Sustainability and Investment* that was approved by the WBG in November 2016. As a result of this approach, in the span of 16 months, the Government has appointed a new utility management team through a competitive process, is shifting its power mix from diesel to heavy fuel oil as a more cost-effective short-term option, and has initiated a revenue protection program. These actions lay the essential foundation for the energy access expansion agenda that will be pursued under the CPF. In

addition, IDA Turnaround resources have been critical in helping address weather-related crises. Thanks to a US\$35 million³⁰ additional financing for the *Social Safety Net Project*, the Government has rolled out a cash transfer and nutrition program for 40,000 of the most disadvantaged families affected by the drought in the South of the country, addressing their immediate needs and supporting them in their livelihood recovery over the next three years.

103. Continued eligibility under the IDA Turnaround regime hinges on the country's demonstrated efforts to break away from past fragility. Over the past year, the authorities have met several of the milestones that were identified under the IDA Turnaround Monitoring Framework. Other milestones, particularly as they relate to political reconciliation, have evolved as this process is a consultative one and is thus more fluid. Those indicative milestones aim to capture progress in political and governance reforms, and in economic reforms. A detailed update is provided in Annex 3. The CPF proposes to continue monitoring those indicators over time as a way to keep track of fragility risks in the country.

3.2.3 Principles for selectivity

104. Among the NDP priorities and the SCD recommendations, the CPF puts the greatest weight on activities that will reduce poverty by fostering resilience and reducing some of the sources of fragility (see Table 4). The SCD process had narrowed down the many development opportunities to 17 priority recommendations that were assessed according to five criteria: their impact on poverty, the timeframe of such impact, the impact on sources of fragility, the need to undertake additional analytical work before implementing the recommendation, and the amount of political capital required to implement such recommendation successfully (see Annex 4). In the governance field, the CPF will focus on supporting decentralization and community engagement and on advancing fair competition among private operators; it will leave the reinforcement of the system of checks-and-balances to other DPs that have a greater comparative advantage, though the WBG will remain engaged in those issues through dialogue.

105. Second, the CPF aims to leverage the vast array of WBG instruments to create sustainable market solutions, catalyze private capital, and encourage the private sector to develop inclusive value chains and essential infrastructure. To do so, the WBG will sequentially cascade its interventions in critical sectors – infrastructure (renewable energy, transport), agribusiness (livestock and domestic transformation) and access to finance – working as one World Bank Group. IDA resources will focus on: (i) supporting policy and regulatory reforms (e.g., electricity tariff reform, land titling) that can unleash broader commercial investments; and (ii) financing complementary public investments (e.g., electric transmission lines, agricultural extension services). MIGA and IFC will encourage domestic and foreign private investments in those critical areas through targeted advisory, blended finance, guarantees, and PPP solutions. They will consider using the financing instruments that are now available under the IDA18 PSW to de-risk the most challenging and impactful investments where existing instruments are inadequate. The WBG will also seek to support the development of the private sector in a way that fosters competition and transparency. This is particularly important in Madagascar's context where tight bonds between political and business networks enable private operators to limit competition to the detriment of consumers. The private sector has as much potential to foster inclusive growth as it has to feed the country's fragility if investments are not planned carefully, competitively, and transparently.

³⁰ Of which US\$20 million came from the IDA Crisis Response Window and US\$15 million came from the national IDA allocation under Turnaround.

Table 4: Mapping of the National Development Plan Strategic Areas, CPF Objectives, and SCD Recommendations

NPD Areas	Adequate human capital for the development process	Valorization of natural capital and strengthening resilience to natural disasters	Governance, Rule of Law, Security, Decentralization, Democracy and National Solidarity		Preserving macroeconomic stability and supporting development	Inclusive growth and local roots of development		
CPF Objectives	Focus Area I: Increase resilience and reduce fragility				Focus Area II: Promote inclusive growth			
	(1) Strengthened children’s human development	(2) Enhanced resilience of livelihoods of vulnerable households in rural and urban areas	(3) Enhanced and effective decentralization	(4) Enhanced transparency and accountability	(5) Increased fiscal capacity to finance priority social and infrastructure spending	(6) Improved business environment and access to finance	(7) Strengthened rural productivity	(8) Improved access to energy and transport
SCD Recommendations	<p>Improve quality and equity of education by investing/managing teachers (#11)</p> <p>Prioritize first-level rural health facilities and remove out-of-pocket costs for the poorest (#12)</p> <p>Renew focus on nutrition and scale up interventions that tackle stunting (#13)</p> <p>Support the poorest in accessing education, basic health, and nutrition through social protection policy (#10)</p>	<p>Adopt policies and investment to improve water and sanitation, starting in large urban areas (#14)</p> <p>Improve mechanisms through which communities benefit from natural resources management (e.g. landscape approach) (#16)</p>	<p>Improve center-periphery relations through decentralization and community engagement in economic and social processes (#2)</p>		<p>Increase tax revenues (#4)</p> <p>Establish or re-institute budget oversight mechanisms (#5)</p> <p>Finalize PPP framework (#6)</p>	<p>Prioritize policy reforms to improve investment climate, promote FDI, enhance performance of the judicial sector, and address anti-competitive behaviors (#8)</p>	<p>Improve agricultural productivity through more productive methods, support for local organizations, financing for better farm-level and road infrastructure, enhanced land security, and higher human capital (#15)</p>	<p>Realize public investments in areas propitious for private sector development and job creation (#7)</p> <p>Address main constraints: reliable access to electricity, broader access to finance, and expanded transport infrastructure. (#9)</p>

106. Third, the focus of the WBG support is determined by its comparative advantage and by its ability to leverage support of other DPs. Cooperation can take various forms. First, the World Bank is working with other agencies to develop common platforms and expand the reach of programs. In the agriculture sector for example, the Agence Française de Développement (AFD) and the World Bank are working together with the authorities to advance an integrated approach for resilient agriculture and natural resources management. Both institutions finance the same activities and through their co-financing, they can increase the number of regions of interventions. Second, the World Bank can use its program to scale up an approach piloted by another agency. This is the case in the decentralization engagement where the World Bank program is contributing to the roll out of a local governance model developed with the support of the German cooperation agency *Deutsche Gesellschaft für Internationale Zusammenarbeit* (German Agency for International Cooperation [GIZ]). Third, cooperation can take the form of an understanding of how best to share fields of specialization. In the education sector, for example, the World Bank is working closely with UNICEF and focusing its support on early childhood education and primary education while AFD is providing more support to vocational training, secondary and tertiary education. In the transport sector, the World Bank will be focusing on rural connectivity while the AfDB, the EU and possibly China, are likely to focus more on main transport connectivity between cities.

107. The CPF seeks to support the strengthening of government systems and social accountability mechanisms. As much as feasible, the implementation of IDA-funded projects will be led by civil servants – at national and local levels – of Ministries that demonstrate the capacity and governance to do so. They will be supported by technical assistance as required. To further increase the impact of those projects at the local level and as a way to enhance local governance while managing risks, projects focusing on service delivery will integrate mechanisms of local accountability with communities – either by reinforcing existing mechanisms or by integrating new ones.

3.2.4 The WBG Program: Objectives and planned knowledge and financing support

Focus Area I: Increase resilience and reduce fragility

108. Reducing poverty hinges on increasing the resilience of smallholder agriculture which provides livelihoods for more than 80 percent of the poor. In the short and medium term, it requires an integrated, sustainable, management of resources that would aim to increase rural productivity while breaking the vicious cycle of over-exploitation of natural resources and improving resilience against weather-related risks. The combination of demographic pressure and low productivity pushes farmers and fishers to expand their agricultural land by deforesting or overfishing, both actions leading to lower productivity in the medium term. Those goals will be supported by multi-sectoral investment programs in agriculture (mostly rice and possibly livestock), sustainable community forestry, and fisheries, and enhanced through policy reforms to be supported by development policy operations. In addition, in light of the high country exposure to weather-related risks – which are expected to worsen with climate change – it is essential to improve resilience through climate-smart agricultural practices, infrastructure built to anti-cyclonic norms, social protection, and the development of risk financing instruments at the local and national levels. Over the long term, human resilience and productive potential will be strengthened by a combination of health, nutrition, and education investments in children’s “Early Years”.

109. With urban poverty emerging as a long-term development challenge and a potential source of fragility, in particular in the capital city, the CPF will initiate an urban upgrading program focusing on water and sanitation. This multi-sectoral program will not only reduce poor citizens’ exposure to flood risks and improve their quality of life but would aim to facilitate economic activities through better

infrastructure and local organization.

110. These essential investments in improving livelihoods can have a lasting effect only if there is stability of the state and if the state can fulfill its mission at the national and local level. Thus the CPF will seek to support the process of decentralization by reinforcing the capacity of local entities to raise local revenues, manage them in an accountable and participatory way, and contribute to the delivery of basic services (e.g., education, health, nutrition, land certification). In addition to having a dedicated public sector program, all World Bank-funded programs will be used as vehicles to reinforce the capacity of regional and local administrations in project areas. At the national level, the CPF will seek to advance accountability in the management of public finances and availability of reliable statistics. In its interventions to improve the investment climate and in its investments with the private sector, the CPF will seek to advance transparency and competition, possibly limiting the influence of a few with vested interests.

Objective 1. Strengthened children's human development

111. The authorities have prepared sound sectoral strategies for social protection, health, education, and nutrition³¹. Those strategies aim to expand access and improve the quality of services at the community level – basic health centers, primary schools, and community nutrition centers. DPs have contributed to the preparation of these strategies and are using these as platforms to coordinate their actions: AFD, the EU, JICA, Norway, UNICEF, UNESCO, the WFP and the World Bank use the Education Sector Plan as their guiding roadmap for education; AFD, the EU, GAVI Alliance, GIZ, the Global Fund, UNICEF, UNFPA, USAID, WHO and the World Bank work together on reinforcing health systems under the broad framework of Universal Health Coverage; UNICEF, USAID, WFP, and the World Bank support the development of a joint nutrition policy. The Government is committed to increasing its own financing for those sectors.

112. By scaling up coordinated interventions in health, nutrition, education, and social protection aimed at supporting children's early development, the World Bank will seek to reverse negative trends in stunting and learning. A multi-sectoral *Integrated Approach to Improving Nutrition Outcomes Project* will support the Ministry of Health and the National Office for Nutrition to deliver to mothers and children under five an essential package of interventions on maternal health (e.g., family planning, pre-natal care), children's health (e.g., vaccination), and nutrition that has proven effective in reducing stunting and improving maternal and child health. In cooperation with World Health Organization (WHO), this program will also seek to improve health surveillance by rolling out an integrated electronic platform nationwide. This system will help combat pandemics and will reinforce the fight against NTDs, including preventing any death from plague. This multi-sectoral program, which will be built as a series of projects over a decade, will start in regions with the highest stunting rates and will be scaled up nationally with IDA resources, grants from various funds³², and through synergies with other DPs. The new *Basic Education Support Project* will focus on increasing the number of children completing primary education while supporting expanded efforts to improve quality through teacher training. It will also help the authorities develop models for rolling out early childhood education on a larger scale. These education, health, and nutrition objectives will be supported through the expansion of the ongoing *Social Safety Net Project* which already provides conditional cash transfers to more than 120,000 of the most disadvantaged

³¹ The Social Protection Strategy, the National Health Policy and the Universal Health Coverage Strategy were approved in 2016. The Education Sector Plan is ready to be submitted by the Government to the Global Partnership for Education (GPE). The National Nutrition Strategy will be ready by mid-2017.

³² Such as GPE, the Power of Nutrition Trust Fund, and the Global Financing Facility.

families. Those families also benefit from awareness raising programs on early stimulation and parental practices.

113. The World Bank is keen to work with the authorities and partners to fulfill its flagship commitment to invest in the Early Years of vulnerable children. The project aims to reduce stunting rates in the most affected regions by one percent per year on average by the end of the CPF period; once it is fully rolled out, it will seek to accelerate impact to two percent annually. This would bring Madagascar to par with the performance of Peru, which has been able to halve its stunting rate in the span of seven years under more conducive country circumstances.

114. In light of the multi-faceted demographic challenge that Madagascar faces with a population growing at a steady rate of 2.8 percent per year, the World Bank will undertake a study on the demographic dividend. This analysis will explore the challenges as well as opportunities that fast population growth is generating for economic growth.

Objective 2. Enhanced resilience of livelihoods of vulnerable households in rural and urban areas

115. The WBG is adopting a multi-sectoral strategy intended to increase the resilience of local communities to climate change and economic shocks. The *Sustainable Landscape Management Project*, which is co-financed by AFD, aims to increase rice productivity through expanded irrigation, with small dams built according to improved disaster norms. It will promote the adoption of climate-smart agriculture practices that can increase both productivity and resilience, including no-tillage systems, crop diversification with improved seeds, and integrated watershed management. Local communities will be encouraged to develop alternative livelihoods that reduce deforestation in critical watersheds. In a departure from past projects, these activities will be jointly managed by the Ministries of Agriculture, Environment, and Water at the central and regional levels. If successful in encouraging farmers to adopt more productive and sustainable practices, this program could be rolled out nationally by the Government and other DPs. In the fisheries sector, the *Southwest Indian Ocean Fisheries Governance and Shared Growth (SWIO Fish) Project* will support the Government and local communities' efforts on sustainable management of fisheries and conservation of resources, including the reinforcement of sustainable co-management arrangements and the emergence of priority fishery value chains. Those resilient investments planned at the community level will also be supported through productive cash-for-work activities under the ongoing *Social Safety Net Project*. This program supports extremely poor populations in rural areas to earn an additional income by undertaking small community investments according to a resilience plan developed by the community. Through behavioral activities, they are encouraged to save and plan for productive livelihood investments. Together with the Government and other partners, the WBG will explore the possibility of developing a program tailored to the needs for *Resilient Livelihood in the South* that would consider combining community investments with targeted support to economic activities (e.g., livestock, agriculture). The World Bank's interventions in forest protection will depend on the Government's commitment to fight against trafficking, sanitize this sector, and put in place the conditions for the development of a sustainable forestry sector.

116. The World Bank will continue to support efforts of the authorities to make infrastructure investments more resilient to disasters and to adopt a financial protection strategy. With World Bank technical support, the national disaster prevention agency has developed new construction norms for irrigation, roads, and schools. These are being systematically applied in all infrastructure funded by the World Bank. In addition, based on an ongoing assessment of disaster risks, the World Bank and the authorities are in discussion to develop disaster risk financing instruments adapted to the country's

financial ability and risk patterns, possibly by including a *Catastrophic Deferred Drawdown Option* (CAT-DDO) in the Development Policy Operation (DPO) on *Inclusive and Resilient Growth* and/or funding the participation in a regional insurance scheme.

117. The outcomes of these investments will be enhanced through institutional and policy changes that will be advanced through a multi-sectoral programmatic DPO series on Inclusive and Resilient Growth. Those investments and policy changes will be guided by the findings of a series of ongoing and future analytical work on smallholder inclusion in value chains, land-use planning based on climate change scenarios, and studies focused on the development challenges of the South.

118. In light of the rapid urbanization, the World Bank will continue its series of Integrated Poles and Corridors of Growth Project that improves urban services in poor neighborhoods of Antsiranana, Toliara, Taolagnaro, and Nosy Be³³ and will develop a new Integrated Urban Development and Resilience Project for Greater Antananarivo. Together with AFD, the national and local authorities, the WBG will finance structural investments and institutional changes to improve canal, drainage and sanitation infrastructure so as to reduce flood risks in poor neighborhoods. In addition, they will seek to revitalize several neighborhoods through a community-based approach. This decade-long undertaking of urban upgrading will be done through a series of projects. It is worth noting that these investments in urban poles along the coast and in the capital are a key contribution to mitigating a source of instability in the country.

119. The authorities are also encouraged to develop climate resilience and forest management strategies, so as to be able to access green funds. In 2015, Madagascar prepared an ambitious Intended Nationally Determined Contribution (INDC) to the United Nations Framework Convention on Climate Change. It makes a conditional commitment to reduce its GHG emissions by 14 percent relative to its business as usual scenario by 2030, by expanding renewable energy and addressing deforestation. It estimates its mitigation costs at US\$6.4 billion for the 2015-2030 period. With a country particularly vulnerable to the impacts³³ of climate change, the INDC also estimates adaptation costs at US\$29 billion for the same period, with a focus on disaster risk management, agriculture, water, health and biodiversity. Through financing from the Pilot Program for Climate Resilience of the Climate Investment Funds, Madagascar will prepare its roadmap to mainstreaming climate resilience into public investment, public finances and territorial development and will identify priority investments and leverage climate financing. Thanks to a grant to support the Reducing Emissions from Deforestation and Degradation process, the Ministry of Environment is promoting effective governance of forest resources as well as expanding opportunities to channel climate finance to promote sustainable investments and mitigate climate change. Carbon finance, resulting from a reduction in deforestation and forest degradation, has the potential to generate substantial revenues that would contribute to more sustainable planning and financing of the country's protected areas network, and would sustain development efforts through forest-friendly development. A balanced approach to natural resources management that allows forest stocks to regenerate can result in carbon finance revenues that attract private investors, benefit local communities as well as provide revenue for the Government.

Objective 3. Enhanced and effective decentralization

120. The CPF will aim to support a more effective decentralization that should, over the long term, contribute to re-balancing powers between the center and the “periphery” and thus reduce sources of fragility. The *Public Sector Performance Project*, which combines technical assistance, investments and

³³ Through the Integrated Growth Poles and Corridors Series of Project.

results-based financing, supports the implementation of the Government's new National Decentralization Policy. It will facilitate transfers from the central to local governments, strengthen the local authorities' capacity to collect local revenues (e.g., mining royalties, land taxes) and to contribute to the delivery of basic services (e.g., education, health, land certification) in an accountable and participatory fashion. This program is complementary to the activities supported by GIZ and UNDP. In addition, the DPO on *Inclusive and Resilient Growth* will seek to ensure that central tax revenues that are legally earmarked for transfers to local collectivities are effectively and transparently collected and transferred.

121. All IDA-funded projects that have interventions at the local level – no matter the sector – will seek to reinforce the capacity of regional and local entities to deliver local services. The World Bank is determined to support ministries in their efforts to strengthen their regional and local departments and that these departments engage with local authorities more systematically. This reinforcement of the local administrations was identified as the first development priority during the national and local consultations around the CPF. (see Annex 5)

Objective 4. Enhanced transparency and accountability

122. Sound decision-making depends on the availability of good data, transparency and accountability in all dimensions of public action. Although national accounts are being re-based to 2007 according to the 1993 System of National Accounts, existing sectoral statistics are insufficient to assess the performance of the economy. Demographic and migration statistics, monetary and financial statistics, trade statistics, and price statistics are scarce and of low quality. In addition to the limited amount of available data, restricted access to information impedes non-state actors from playing effectively their role of counter-powers and fostering transparency and accountability in public policies.

123. The CPF makes enhanced transparency and accountability a key objective, due to its expected positive effects in numerous areas and general governance. Through the *Statistical Capacity Building Project*, the World Bank will strengthen the capacity of the *Institut National de la Statistique* (National Statistical Institute – INSTAT) to produce quality statistics and make them accessible in a timely manner to policy makers and the public. Support will be provided for the development of the national census (expected to take place in late-2017), a household living standard survey, national accounts, and the reform of INSTAT. The information generated by the census will be important to inform the implementation of a range of policies, in particular on social services, decentralization, and civil registration.

124. The WBG will continue its efforts to mainstream social accountability, citizens' participation and beneficiary feedback mechanisms across the program. In preparing and monitoring projects, the World Bank is being more systematic at undertaking political economy analyses to guide the design and the choice of accountability mechanisms. Such mechanisms will be increasingly important as there is a progressive shift of resources from the central to the local level: experience from decentralization in other countries has demonstrated that decentralization can be effective in improving the delivery of basic services if accompanied by a strengthening of local accountability mechanisms. These mechanisms will be designed so that women are comfortable participating in those feedback mechanisms and can make their views heard. Efforts for greater local accountability and transparency in the management of public resources at the local level will also be supported through an ongoing grant from the *Global Partnership for Social Accountability (GPSA)* to a local civil society platform.

125. The WBG will attempt to help the authorities in their fight against corruption, the trafficking of natural resources, and related financial flows. The World Bank has been encouraging and supporting the authorities in their efforts to establish a special tribunal for the traffic of precious woods, to finalize an audit of precious woods stocks, and to develop transparent ways for possibly liquidating those stocks with the agreement of CITES. The objective would be for Madagascar to develop a sustainable management of precious woods. In addition, the World Bank is currently undertaking with the agency of financial investigations (SAMIFIN) an assessment of compliance with Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) standards. It sheds light on the risks created by the large informality of the economy and the proliferation of traffics. The World Bank will propose measures for the justice sector and the financial sector and plans on supporting their implementation through advice.

Focus Area II: Promote inclusive growth

126. Madagascar needs to develop its own resources and attract investment to finance its development priorities and to set the necessary conditions for the domestic and foreign private sector to invest and foster inclusive growth. The second focus area thus focuses on promoting private-sector-led, sustainable inclusive growth by increasing the fiscal space to finance key public infrastructures and to ensure basic service delivery to all, by improving the business environment and access to finance to enhance job creation, by boosting productivity in labor-intensive sectors (agri-business, tourism, fisheries, etc.), and by building infrastructure that currently constrains the development of the private sector and its access to markets (energy, transport).

Objective 5. Increased fiscal capacity to finance priority social and infrastructure spending

127. The Government is taking steps to increase its fiscal space by reforming its fiscal administration and increasing the efficiency of public spending. The main driver of Madagascar's poor revenue performance is its weak tax administration. Fiscal space is also constrained by inefficient expenditures, including subsidies and transfers to SOEs and pension funds. The intention to scale up public investments must be accompanied by efforts to identify and assess systematically projects for appropriate socio-economic returns, particularly since financing instruments such as PPP and loans are being considered. These PPPs could help boost public investments but may generate contingent liabilities. The extractive industry is an important contributor to the economy and the Government is considering updating its mining and petroleum codes, including the tax clauses. Since 2014, Madagascar has regained its full membership in EITI has produced annual reports. It is now seeking to obtain the new EITI certification.

128. Reforms to improve financial sustainability and transparency will be encouraged by a programmatic series of multi-sectoral development policy operations and some results-based financing. The Government's program to mobilize tax revenues, improve the performance of SOEs and reduce non-targeted subsidies, transform its Public Financial Management (PFM) practices, and enhance the environment for investments is the cornerstone of the three-year ECF program. It is also the basis on which partners – such as the AfDB, the EU, France, and the World Bank – are developing their budget support operations, including the IDA-funded *Public Finance Sustainability and Investment DPO*. The detailed design and implementation of the reforms specific to the customs and tax administrations are supported by the *Public Sector Performance Project*. This project also helps local governments raise local revenues, mainly from mining royalties and land property taxes that are being supported by the expansion of the decentralized delivery of land certificates. The *Financial Inclusion Project* will aim to support the digitalization of transactions by supporting the development of mobile money, starting with salary payment transactions by the Treasury and tax collection.

129. Those reforms and their implementation will be informed by a robust set of technical assistance.

At the request of the authorities, the World Bank is working with the Ministry of Finance on an analysis of SOEs, on the planning of public investments, and on modelling potential adjustments to be made to the pension system. Through the *Integrated Poles and Corridors Project SOP-1* and with additional support from Public Private Infrastructure Advisory Facility (PPIAF), the regulatory framework for PPPs is being finalized and the Ministries concluding PPPs can receive assistance to analyze those PPPs and ensure that the financial aspects are fair to the beneficiaries and the state. With the support of trust funds, the World Bank is helping the authorities develop a sound and competitive tax framework for the mining and petroleum sectors and will continue to support Madagascar's EITI efforts.

Objective 6. Improved business environment and access to finance

130. Environment for businesses, in particular MSMEs, is challenging in many ways. Madagascar is ranked 167th out of 190 economies assessed by the 2017 Doing Business Report. Laws and regulations governing business and competition are mostly sound but are not consistently and equitably enforced. Investors have little trust in the justice system, citing widespread corruption. Financing is mostly limited to incumbent and large firms with existing financing networks or established credibility, limiting the ability of new firms to emerge, and efficiency-enhancing competition to happen. MSMEs struggle to access finance at reasonable rates, even from MFIs. Access to secure land also is a key issue that undermines private investments in various sector (e.g., agribusiness, tourism).

131. The authorities have laid out a plan for regulatory improvements, process simplifications, and stronger banking facilitation. The Enterprise Development Board of Madagascar (EDBM) has already implemented a few steps to improve the country's standing, with three positive reforms recorded by Doing Business in 2016. Parliament has adopted an e-money law and is considering a new banking law that would firm up the Central Bank's independence. Following the recommendations of the Financial Sector Assessment Program (FSAP) in 2016, the Central Bank of Madagascar (CBM) and the Ministry of Finance have put together a detailed action plan. The CBM is in the process of reinforcing its supervision of the banking and MFI sectors and is rolling out plans to modernize the financial sector infrastructure with the objectives of ensuring stability and fostering financial inclusion.

132. The IFC and the World Bank will combine their financing and technical resources to support the authorities in nurturing a more conducive ecosystem for firm growth. A first area of work – supported via the IDA-funded *Integrated Poles and Corridors Series of Project* and a Japan trust-funded IFC program – is centered around regulatory and operational improvements for business environment, improvements in the management and governance of commercial courts, trade facilitation and improvements of industry logistics/value chains in general (e.g., tourism), and direct support to entrepreneurs and SMEs in both the informal and formal sectors to grow and improve their productivity, with a particular focus on fostering growth of women entrepreneurs. In improving the business environment, the WBG will use its advocacy and advisory services to encourage authorities to establish a more leveled playing field for all operators, fight against vested interests, and ensure greater consistency in decision-making.

133. A second field of work focuses on financial inclusion with IFC supporting the development of a credit bureau and a collateral registry and the World Bank focusing on the reinforcement of the MFI sector, the modernization of the national payment system, the expansion of mobile money services, and the promotion of financial literacy and financial consumer protection. In addition, the World Bank will continue to support commercial credit to local SMEs through the expansion of a Partial Portfolio Credit

Guarantee scheme in which five commercial banks and two MFIs currently participate. Assistance will take the form of a *Financial Inclusion Project* and technical advice. This program will explore if special features have to be developed so as to ensure women's participation and access to credit. For example, partial portfolio credit guarantees (PPCGs) targeting informal and women-owned businesses could help expand access to finance for smaller, excluded firms. It is worth noting that a separate but complementary effort of rolling out land certification on a large scale under the *Agriculture Rural Growth and Land Management Project* should bolster access to financial services. Some of these reforms will also be advanced through the two proposed series of *DPOs on Public Finance Sustainability and Investment*, and on *Inclusive and Resilient Growth*. Contingent on market conditions, these joint interventions could be accompanied by dedicated IFC investment and advisory solutions aimed at increasing the availability of long-term funding for SMEs and MSMEs (through Risk Sharing Facilities) and bolster the microfinance sector.

Objective 7. Strengthened rural productivity

134. As the largest employment sector in the country, agriculture, livestock and fisheries have the potential to drive inclusive growth and lift the population out of poverty. These sectors could thrive: farmers have the potential to increase the productivity of staple crops and to expand the production and quality of diverse specialty crops and livestock so as to join value chains (e.g., spices, beans, fruits, cotton, and meat) developed by the private sector. Similarly, fishermen could increase their productivity over time by managing fish stocks more sustainably and could participate in commercial value chains (e.g., lobsters, shrimps, sea cucumbers, algae). In both sectors, Ministries are keen to support the development of value chains around specialty goods, by working with small producers and enabling them to acquire skills, land rights and the necessary finance, and by creating an enabling environment for private firms (e.g., sanitary certification).

135. The WBG's multi-pronged program will assist farmers and fishermen to boost their productivity through market-oriented programs. The *Agriculture Growth and Land Management Project* and the *SWIO Fish Project* will aim to address these constraints through a market-driven, integrated approach that develops the links between livestock, agriculture, agri-business development, increased productivity, knowledge transfer, access to improved inputs, infrastructure improvement, credit facilitation and access to markets. Technical assistance will support institutions offering tailored, demand-driven and specialized services and financing for SMEs and startups investing in climate-smart practices and technologies. The strategy also aims to improve the functioning of the land tenure system with local authorities playing a key role in ensuring land management. Isolated producing areas will be unlocked through the rehabilitation of key road networks. In the fishery sector, activities for sustainable exploitation will be promoted through enhanced regional collaboration on sustainable management of the maritime territory and improved governance of priority fisheries. The focus will also look at the professionalization of stakeholders, value-chain enhancement and seafood value-addition and long-term strategic infrastructure planning. Access to credit for smallholder producers and rural fishermen will also be supported via the above Partial Portfolio Credit Guarantee scheme that has been established by the ongoing *ACGF - Financial Services Project* and will be expanded under the upcoming *Financial Inclusion Project*. Activities will be tailored so that they are inclusive of women who play an important role in agriculture diversification and fish product transformation. For example, interventions that promote climate-smart agriculture practices and improvements in household-level nutrition will be aimed at women and investments in land rights registration will include a specific effort to ensure that land certificates have the ability to recognize joint male-female and female-only ownership.

136. Capitalizing on the agricultural sector policies and institutions supported by the WB program, IFC will help develop selected agricultural value chains (food crops, livestock) through an approach blending advisory services and investments, including using the de-risking mechanisms afforded by the IDA18 PSW where appropriate. The aim is to deepen value chains connecting anchors, smallholders, outgrowers and cooperatives through a mix of investment and advisory services. IFC intends to use advisory services to raise the capacities of local banks (pre-assessment tools, risk management tools) to support agri-finance in Madagascar, thus replicating successful past experiences. It will also help build capacity of emerging agri-business companies and their supply chains. Advisory engagement would be instrumental to secure best ESG practices and work closely with the Government to establish export licenses and certifications. IFC investments would focus on the sub-sectors where Madagascar has a comparative advantage: animal protein and projects with a local transformation/domestic value addition component. For example, a potential IFC US\$7-million investment complemented by Advisory Services is supporting the establishment of the first export slaughterhouse in Madagascar which is intensifying meat production using modern feedlot systems. The project is implemented in close coordination with IDA-funded *Agriculture Growth and Land Management Project* which is strengthening the capacity of veterinary services in Madagascar. IFC is also exploring opportunities to work with traders moving into basic agro-processing (e.g., flour, liquid milk reconstitution, pasta manufacturing, biscuits, edible oils, and fast moving consumer goods) in order to increase domestic agriculture value addition and to eventually create markets for local producers. Moving forward, IFC would seek to use the IDA18 PSW blended finance and local currency facilities for transformational agri-business and agro-processing projects in Madagascar where existing solutions are inadequate. This would be complemented by WB or IFC advisory interventions to structure the value chain (ESG or phytosanitary standards).

137. The agricultural program is well coordinated with other partners by the Ministry of Agriculture and Livestock. Other partners, such as AfDB, the EU, FAO, IFAD, JICA, and USAID, are working together to ensure that most of the highly productive regions are getting support and that systems put in place are coherent across the country. The fishery sector benefits from less support, mainly from AfDB, GIZ, and a few large NGOs.

Objective 8. Improved access to energy and transport

138. Access to well-performing infrastructure, including energy and transport, is one of the most serious impediments to the country's competitiveness and inclusive growth in urban and rural areas. Despite a high potential for hydro and solar energy, only 13 percent of the population has access to electricity. In transport, half of secondary roads and two thirds of tertiary roads are classified in "bad condition." As for the air transport, the low performance of the national airline company Air Madagascar and high costs have affected tourism which could provide important gains to the economy.

139. The Government is taking progressive steps to decrease JIRAMA's reliance on subsidies and transform air transportation. With the support of the IDA-funded *Electricity Sector Operation and Governance Improvement Project*, it has initiated a program to improve its management, protect revenues, and rehabilitate the Antananarivo-Antsirabe transmission network. As for air transport, a National Air Transport Policy Note confirming the open sky policy has been developed and a National Airport Master Plan will be developed with technical assistance from the World Bank. The Board of Air Madagascar has launched a competitive search for a strategic partner and negotiations should be concluded by mid-2017.

140. To improve performance in the electricity sector and double electricity access by 2021, the WBG strategy emphasizes combining sector governance reforms with least-cost investments in grid and off-grid solutions. In the power sector, it is expected that the ongoing program aimed at improving JIRAMA's operational and financial performance will set sound foundations to attract private sector investment in generation, particularly tapping Madagascar's renewable energy sources. Building on the Least-Cost Energy Development Plan that is currently under preparation, the WBG will focus future support on easing the risks and costs of private sector investments by: (i) using IDA resources to develop priority network investments; (ii) using IDA-funded partial risk guarantees and MIGA guarantees to cover non-payment and political risks; and (iii) using IFC resources, possibly enhanced through the IDA18 PSW where appropriate, to de-risk private operators' financing. As an initial step, the authorities and IFC have launched a Scaling Solar Advisory program to develop a first 30-MW project on a competitive basis. IFC is also considering the development of hydro facilities through its InfraVentures program, where IFC could fund the project development costs along the sponsors and a strategic partner. The WBG will also explore cost-efficient models to support the expansion of access in rural areas. DPs – AFD, AfDB, the EU and EIB, GIZ, and the US – are strongly aligned in their dialogue and investments in the energy sector.

141. The transformational approach in the transport sector is similar: investments will have a sustainable impact as long as the institutional set-up is strengthened and will be inclusive by focusing more on rural connectivity. Under the ongoing *Emergency Infrastructure Preservation and Vulnerability Project*, the World Bank is financing the rehabilitation of "critical" infrastructure – mostly a national road and bridges that were at risk of collapsing and cutting off several millions of Malagasy from key markets. These investments are accompanied by a dialogue among the DPs (AfDB, the EU and EIB, the World Bank) and the authorities on the need to reinforce the maintenance funding mechanism (FER) and the road execution agency (ARM). Going forward, the World Bank will consider financing investments in road infrastructure that would expand *Rural Transport Connectivity project*, linking priority production areas with markets. Analytical work will first be undertaken to identify those connections that could have the highest impact on poverty and inclusive growth.

142. The WBG will continue to support the evolution of air transport to unlock the country's high tourism potential and facilitate integration of global value chains. The IDA-funded *Integrated Growth Poles and Corridors Project – SOP1* will continue to support the development of tourism by enhancing public infrastructure in some key tourism destinations, by helping Air Madagascar in finding a reliable strategic partner, by supporting PPPs for secondary airports, and by promoting the open sky policy to increase air traffic and lower travel costs. IFC is focusing on structuring projects in transport to support trade and tourism. Together with MIGA, it is partnering with the private operators who have won the Ravinala Airports concession to rehabilitate, expand, operate and maintain the country's two largest airports serving Antananarivo and Nosy Be. IFC is also considering investments in Petroleum Storage and Distribution. Moving forward, IFC would provide technical assistance to the Government to mainstream PPP solutions in transport infrastructure. A dedicated PPP framework is being finalized with PPIAF support which will also help reinforce PPP analysis and preparation capacity at the Ministry of Finance and the Ministry of Presidential Projects and Land Planning. Regarding direct investments in tourism projects, IFC will follow an opportunistic approach.

3.3 Implementing the Madagascar Country Partnership Framework

3.3.1. Financing envelope, instruments, and implementation

143. The indicative national IDA financing envelope to support the CPF over the FY17-FY21 period amounts to about US\$1.3 billion. The overall IDA financing in FY17 totaled US\$260 million and reflected commitments utilizing resources from the country's core IDA17 allocation, based on the IDA Turnaround regime, IDA Regional funds, and the Crisis Response Window (CRW). In FY18, the indicative national IDA allocation under the Turnaround regime would range from US\$330 to US\$400 million, depending on continued policy performance and quality of portfolio management³⁴. For FY19-FY21, the indicative national IDA allocation would be determined by the IDA performance-based resource allocation mechanism and overall resource availability in IDA18 and IDA19: assuming that Madagascar maintains its overall policy performance and level of portfolio management, the allocation is expected to be in the range of US\$230 to US\$250 million per year. The terms of the IDA resources will be determined by the annual Debt Sustainability Assessment (DSA) undertaken jointly by the IMF and the WB. In the 2016 DSA, Madagascar's risk was assessed as moderate and thus resources were provided on a mix of grants and concessional credit terms.

144. Subject to Madagascar's continued reform efforts, World Bank management may consider granting an extension to the Turnaround regime for Madagascar for an additional period. Towards the end of FY18, a review of Madagascar's performance under the IDA Turnaround regime will be undertaken. It will assess the extent to which Madagascar has made progress in reducing fragility – as measured by the indicative milestones of the IDA Turnaround monitoring framework – and towards the results outlined in this CPF. If eligibility under the IDA Turnaround were to be extended for a two-year period (FY19-FY20), the indicative national IDA financing envelope to support the CPF over the FY17-FY21 period would be larger than indicated above. As indicated earlier, those additional resources would not materialize into additional projects but in larger programs in “flagship” areas where progress can be accelerated and there is sufficient implementation capacity.

145. Madagascar also has the possibility of accessing additional IDA resources through the regional window for eligible projects of a regional nature, the new PSW, and the Scale Up Facility. The PSW is structured to provide a unique de-risking process for high-impact private sector projects through four financial products: (i) blended finance could be a strong attraction in the agribusiness and in sectors where there is a first mover opportunity; (ii) local currency funding could be used for production of goods and services that will be consumed locally (e.g., flour, liquid milk reconstitution, pasta manufacturing, biscuit, fast moving consumer goods); (iii) the risk mitigation facility which attracts private investors by backstopping ongoing payment obligations of SOEs for infrastructure projects or PPPs; and the MIGA guarantee facility which provides private market insurance and/or reinsurance capacity to cover for non-commercial risks (such as war, civil disturbance, expropriation, currency inconvertibility, transfer restrictions and breach of contract) in countries where this type of coverage is not available. In addition, Madagascar will be eligible to access the IDA Scale-Up Facility which provides financing on non-concessional terms to IDA countries that have a low or moderate risk of debt sustainability. At this time, Madagascar has not expressed interest in drawing on the Scale-Up Facility as it is cautious about increasing investments at pace with its implementation capacity, while maintaining the risk of debt sustainability to a moderate level.

³⁴ Subject to confirmation of continued eligibility for the Turnaround regime. Such assessment will take place before the end of the FY17.

146. The CPF will leverage and seek synergies across the WBG. The CPF would rely on a stepped-up IFC engagement in Madagascar and a stronger WBG collaboration. Contingent on market conditions, IFC should significantly increase its support for private sector development through investments, and advisory services aligned with the Government's priorities. In particular, it is seeking opportunities in sectors that contribute to inclusive growth: agribusiness, energy, financial sector, and infrastructure. In this context, IFC will actively explore opportunities to use the IDA18 PSW facilities for projects in renewable energy as well as transport and logistics (Risk Mitigation facility), agri-business, agro-processing, and potentially health and education (local currency or blended finance facilities) where appropriate. In addition, IFC will actively engage with MIGA to explore options to increase the use of political guarantees for foreign investors to crowd in private capital.

147. The objectives of the CPF will be advanced through a combination of development policy operations, investment financing, results-based instruments, and analytical work. It is foreseen that up to one-third of the annual IDA envelope – i.e., US\$80 million per year – would come in the form of development policy operations if reform programs warrant it. These policy reforms would reinforce the impact of investment operations. Results-based financing has been initiated for the first time in the Madagascar program in FY16 in the *Public Sector Performance Project* and its use will be extended during the CPF period, in particular in support of the Early Years agenda.

148. In terms of implementation, projects undertaken by the authorities will seek to reinforce national procurement and fiduciary systems. The 2004 Procurement Code is largely consistent with good public and international practices. The assessment of Madagascar national procurement system was conducted and concluded that fundamentally nothing stands in the way of utilizing the National Procurement Commission to carry-out prior reviews and post procurement reviews on World Bank financed project activities. A set of strategic axes for new policy implementation and capacity development was developed in partnership with the Government. The set of strategic axes includes inter alia the separation of the control and Regulation authorities, adoption and implementation of a professionalization strategy of the public procurement function which requires the formulation of a new procurement code. As a result, a new Procurement Code was prepared, submitted to the Parliament and promulgated in January 2017. In terms of fiduciary management, the 2014 PEFA assessment pointed that there are still significant risks due to the lack of transparency and accountability in the use of public funds. The World Bank is thus opting for a gradual use of the country's PFM systems using a risk-based approach. Mitigation measures will include the development of project manuals which provide clarity of roles and responsibilities, a process to implement and report on project activities, a strengthening of the control environment, and monitoring and evaluation systems, and the frequency of the World Bank's implementation support.

149. Stepping up citizen and beneficiary feedback is a potential game-changer on implementation as it can provide real-time and actionable feedback. Projects will involve a well-designed consultation strategy to ensure that project design is responsive to the needs of beneficiaries. These strategies will promote continuous engagements with citizens during implementation to track progress, manage risks, and inform project adjustments. This approach is also critical in a fragile country context with a limited practice of checks-and-balances and contestation towards authorities.

Table 5: FY17-FY21 WBG Indicative Financing and Analytical Program

Focus Area I: increase resilience and reduce fragility			Focus Area II: promote inclusive growth		
FY17	IDA	Others		IDA	Others
<i>IDA:</i> Statistical Capacity Building (with EU co-financing)	65	USAID,UN	Public Finance Sustainability and Investment DPO-1	65	AfDB, France
Social Safety Net Drought Response (AF)	35	WFP,USAID	Poultry Investment (IFC)		
			Airport Concession (IFC & MIGA)		
Sustainable Landscape Management Project				65	GEF, AFD
Southwest Indian Ocean Fisheries Governance and Shared Growth				83	GEF, PHRD
<i>Analytical work:</i> Addressing malnutrition			Hydro resources mapping		
Raising education outcomes			Hydro support for development		
Service Delivery Indicators					
Urban poverty and resilient study					
FY18					
<i>IDA:</i> Basic Education Support	55	GPE	Public Finance Sustainability and Investment DPO-2	40	
Integrated Approach to Improving Nutrition Outcomes (SOP-1)	80	Power of Nut.,UNICEF,USAID	Least-cost Electricity Development (LEAD) project	80	
			Agri-business Development (IFC)	IDA PSW	
Inclusive and Resilient Growth DPO-1				40	
Integrated Urban Development and Resilience for Greater Antananarivo (SOP-1)				70	AFD
Financial Inclusion (SOP-1)				45	
<i>Analytical work:</i> Building nutrition sensitive safety nets			Microfinance supervision (FIRST)		
Fostering integrated urban water management			EITI		
Smallholder Inclusion in Value Chains			State-owned enterprises reform		
El Nino impacts on population, food security, agriculture and livestock			Donors Coordination for Results		
Demographic dividend			AML/CFT Assessment		
FY19					
<i>IDA:</i> South Resilient Livelihood	50		Public Finance Sustainability and Investment DPO II	40	
			Integrated Poles and Corridors of Growth (SOP-2)	60	
			Renewable Energy Development (possible Partial Risk Guarantee)	70	
			Renewable Energy Investment (IFC and possibly MIGA)	IDA PSW	
			Rural Transport Connectivity	60	
Inclusive and Resilient Growth DPO-2 (possibly with additional CAT-DDO component)				40	
<i>Analytical work:</i> Conditional cash transfer impact evaluation			Finance payment systems (FIRST)		
Chronic malnutrition impact evaluation			PPP Framework		
Land use planning for resilience			Debt and public investment management		
Skills study			Blue Economy		

3.3.2. Portfolio management

150. Throughout the CPF period, the World Bank will seek to maintain a portfolio that is focused so as to maximize impact and be manageable – for the client and for the World Bank. The portfolio currently comprises 12 investment projects, with a total commitment of US\$703 million covering eight sectors (see Annex7. The portfolio counts two problem projects that are being restructured. The disbursement ratio of 37.5 percent at end of June 2016 is well above World Bank and Regional averages and demonstrates Madagascar’s substantial absorptive capacity. In light of the increase in the IDA allocation, it is expected that the portfolio will comprise no more than 16 projects by FY19 and will remain at that level.

151. The World Bank will continue to work closely with the Ministry of Finance to ensure smooth and effective implementation of the program. In addition to the regular technical meetings, comprehensive Country Portfolio Performance Reviews will continue to be undertaken every two years jointly with the Government. They will be expanded to include results-focused sessions organized around the CPF objectives alongside the more traditional emphasis on implementation progress. The Program Learning Review (PLR), to be conducted at the mid-point of the CPF period, will provide an opportunity to take stock of program-wide progress and allow for mid-course adjustments.

3.3.3. Collaboration with partners

152. The aid landscape in Madagascar is relatively bare – in terms of number of agencies and overall financing. In 2014, Madagascar received the least aid per capita after the Democratic People’s Republic of Korea (DPRK). The largest multilateral donors are the AfDB, the EU, the IMF, and the UN. The main bilateral donors are France, Germany, Japan, Norway, and the US. Each agency’s program is focused on a limited set of sectors. Since the end of the 2009-2013 crisis, aid has progressively increased and DPs have firmed up their planned activities. At the December 2016 Donors and Investors Conference for Madagascar, the main multilateral and bilateral donors committed US\$4.3 billion, in addition to their undisbursed commitments of US\$2.1 billion. Resources are programmed in accordance with each institution’s practices: the EU signed a program agreement with the Government for the 11th European Development Fund (FED); AFD outlined its country strategy in 2016; Germany has completed consultations with the authorities on its engagement program; and the AfDB is finalizing its 2017-2021 country strategy. Each multilateral and bilateral agency has a focused set of interventions (see Annex 7).

153. Coordination mechanisms are being reinforced at the national level. The Donors and Investors Conference has led the authorities to strengthen their national coordination mechanism. The President has set up an office to coordinate and follow up on investments, *Organisme de coordination et de Suivi des Investissements et de leurs Financements* (Organization for the Coordination and Monitoring of investments and their Financing) headed by a Commissaire Général which will ensure that the programs of DPs are aligned with national priorities, are coordinated among each other, and are proceeding at a steady pace. This office will also support implementing Ministries in ensuring that they are managing DPs’ resources efficiently and are contributing to an effective implementation of the donors’ programs. Coordination will also continue to occur through sectoral coordination groups that are most often led by the sectoral Ministries. At this time, the World Bank co-chairs the Cadre de Partenariat which coordinates the dialogue around economic issues and includes all the partners providing budget support (i.e., AfDB, France, the EU, IMF, and the World Bank) and the coordination group for private sector, financial sector and trade issues.

IV. MANAGING RISKS TO THE CPF PROGRAM

154. The overall risk to achieving the CPF objectives is Substantial. Risks are mainly related to Madagascar’s political economy, its macroeconomic situation, and its weak institutional capacity for sustainability. As an overall mitigating measure, the CPF puts strong emphasis on governance, fiduciary and safeguard aspects of project design and implementation. Risks to the CPF have been assessed using the Systematic Operations Risk-rating Tool (SORT) as summarized below.

Table 6: Systematic Operations Risk-rating Tool for Madagascar

Risk Categories	Rating (H, S, M, L) ³⁵
Political and governance	High
Macroeconomic	Substantial
Sector strategies and policies	Moderate
Technical design of project or program	Substantial
Institutional capacity for implementation and sustainability	Substantial
Fiduciary	Substantial
Environment and social	Substantial
Stakeholders	High
Overall	Substantial

155. Political and governance (High): While greater political stability has prevailed since 2014, the country’s history is one of recurrent political crises. The country has made progress in setting up all the institutions that are foreseen under the Constitution (e.g., Senate, High Court of Justice) but relations among the executive, legislative, and judicial branches remain fragile. In addition, corruption remains rampant, though the independent anti-corruption agency (BIANCO) is showing greater determination in prosecuting high-profile cases. Presidential elections scheduled to be organized in late 2018-early 2019 may generate tensions as former Presidents, who had agreed not to participate in the 2013 elections per the SADC Roadmap, have both indicated their intention to run in the upcoming elections. One could expect that the pace of implementation of the CPF will slow down as the authorities’ attention turns to the elections. To mitigate potential political and governance risks to the CPF, the WBG will adapt project design to take into account political economy and governance dynamics. It will focus on implementation at the local level and include systematic citizen engagement as a means to monitor results and manage risks.

156. At this time, it is hard to say if the dynamics that have been feeding cyclical instability are changing in a sustained way. The WBG will continuously watch governance indicators that had been identified as part of the IDA Turnaround Monitoring framework and will be ready to adjust its CPF program in case the political and governance situation deteriorates. In light of previous experiences, it would consider (i) maintaining its action under Pillar I (Increase resilience and reduce fragility) with scaled-up mechanisms for citizen engagement and social accountability at the local level, and (ii) narrowing down its program under Pillar II (Promote inclusive growth) to the objectives of supporting rural productivity and of improving access to infrastructure. Those two objectives can be supported, in particular, by a continued engagement of IFC and MIGA with the private sector. The likelihood of reaching the objectives of the others activities (i.e., increased fiscal space, and improved business environment) would be re-considered in light of the prevailing governance environment.

³⁵ High, Substantial, Moderate and Low.

Table 7: Indicators for Fragility Risk Monitoring Purpose

Social Cohesion	<ul style="list-style-type: none"> • Preparation of the 2018 electoral process according to national laws • Implementation of the National Reconciliation Commission according to law • Increasing transfers to territorial decentralized collectivities and development of local accountability mechanisms (e.g., implementation of the local consultations committees) • Implementation of the 2016-2020 National Land Tenure Program
Law enforcement	<ul style="list-style-type: none"> • Implementation of the Policy Letter on the Reform of the Security Sector • Evolution of the fight against illicit traffic of biodiversity and natural resources (e.g. conclusion of process with CITES, implementation of the special tribunal) • Evolution of the security tensions in the South
Accountability	<ul style="list-style-type: none"> • Continued compliance with obligation to file assets declarations by high office holders • Continued independence of the anti-corruption agency (e.g., budget allocation, interferences from executive / judicial bodies, follow-through on investigations) • Continued freedom of the press
Economic management	<ul style="list-style-type: none"> • Compliance with 3-year ECF agreement with IMF • Continued reforms at customs and tax administrations • Progressive increase in share of priority spending • Transparency in budget reporting and auditing

157. Macroeconomic (Substantial): While Madagascar is vulnerable to external shocks, the country has managed to maintain macroeconomic stability but insufficient tax revenues, large transfers to the SOEs, and a weak capacity to plan public investments constitute a macroeconomic risk. Increasing fiscal space is one of the main goals of the CPF. Reducing inefficiencies at JIRAMA, to be supported by the CPF, would mitigate this risk. Any large-scale weather-related disasters – such as the drought affecting the central area of the country or the 2017 Enawo cyclone – could derail the fiscal program and put in jeopardy many of the Government’s early achievements in restoring a stronger fiscal position.

158. Sector strategies and policies (Moderate): the quality of sector wide planning has improved in recent years. However, links between planning, budgeting, and implementation remain weak, particularly when implementation occurs at a decentralized level. The World Bank will continue to support the Government in better aligning planning and budgeting strategies at sector and national level. Gaps in sector planning will be identified and addressed through project design.

159. Technical design of project or program (Substantial): The design of the CPF is along thematic objectives that require multi-sectoral interventions. This design is expected to strengthen complementarity and promote a more focused WBG portfolio. Meanwhile, it may inadvertently signal a shift towards more complex cross-sectoral project designs. The World Bank will thus try to keep project design simple, while promoting synergies between projects.

160. Institutional capacity for implementation and sustainability (Substantial): Given the multi-sectoral scope of the CPF program and the need for coordination between agencies at the national level and with the local level, a number of capacity and sustainability risks will need to be assessed and mitigated within each project. The WBG will conduct comprehensive institutional assessments during preparations stage to identify gaps and introduce mitigating measures, including technical assistance and institutional capacity development making sure to provide opportunities also for on-the-job training to increase local capacity for sustainability. Sustainability of the activities will depend also on the authorities’

ability to increase their financial resources over time so as to take over implementation.

161. Fiduciary (Substantial): The Government has indicated its intention to mainstream projects management as much as possible into existing Government structures and to promote the use of country systems. However, a recent assessment of country systems indicates weaknesses in overall country procurement, PFM systems and in the existing complaints and grievance mechanisms. These also include risks related to corruption and fraud in fiduciary management. The assessment concluded however that it is possible to use the country systems provided that mitigation and compensatory measures are put in place. Furthermore, the mainstreaming of social accountability mechanisms across operations according to governance and anticorruption strategy guidance will mitigate risks.

162. Environment and social (Substantial): Government ownership of safeguard approaches is insufficient. Differences between World Bank policies and country requirements manifest in the lack of enforcement of national laws and inadequate and non-continuous risk/impact analysis of both environmental and social safeguards issues. While the environmental regulatory framework is in place, the social dimensions are not regulated by a dedicated law and body. The capacity and commitment of the implementing agencies to satisfactorily implement safeguard instruments is, however, good. The WBG will continue to strengthen client capacity and ownership. The private sector – particularly in growth sectors such as extractives, infrastructure and agribusiness – has a low capacity to address important environmental and social risks and thus IFC will support their clients with ESG advisory services.

163. Stakeholders (High): The strong influence of political and economic elites represents a high risk to the implementation of key reforms. Powerful vested interests, some related to political financing, could slow down reforms significantly and even derail them. However, the CPF consultations have shown that there is support for the priorities outlined in this CPF. During the CPF period, the WBG will make a renewed effort to consult with all key stakeholders – in the capital and at lower levels of government – to generate a better understanding and ownership of projects. It is also strengthening its communication to ensure there is a greater understanding of the reforms that are being supported.

Annex 1. Madagascar Country Partnership Framework Results Matrix

Note: Baseline and target data might be revised at the time of the PLR due to (i) the fact that a census will take place in late 2017 and will lead to a revised sampling framework for all household-based surveys; and (ii) efforts to upgrade the national accounts to a more recent methodology that will imply a re-basing of GDP.

FOCUS AREA I: INCREASE RESILIENCE AND REDUCE FRAGILITY		
Objective 1: Strengthened children’s human development		
<p>Following the “Investing in Early Years” logic, the CPF seeks to reinforce the resilience and productive potential of poor Malagasy by giving them a better start in life and providing them with the necessary investments in health, nutrition and education so that they have the opportunity to develop to their full potential. In particular, a reduction in stunting – seen as “flagship” indicator – will be supported through an integrated program of multi-sectoral interventions in health, nutrition and social protection in eight regions with the highest stunting rates. This program’s success will hinge on the strong cooperation of the Ministry of Health and the National Office for Nutrition at the central level and their ability to integrate their services at the local level to deliver better quality services more effectively. The new education program will focus on increasing the number of children completing primary education while supporting expanded efforts to improve quality through teacher training targeted at community teachers. It will also help the authorities develop models for scaling up early childhood education.</p> <p>Projects that invest in human development will give a prominent role to mothers, not only as beneficiaries but as active participants. They will be engaged in community groups to discuss nutrition practices, family budget planning, design of community-investment plans to be supported through cash-for-work, and as agents of change within their communities who can become “mother leaders” who promote children’s nutrition and early stimulation among their peers.</p> <p>By demonstrating that the state can effectively deliver services across the country, particularly in enclaved zones or in zones that have been neglected in the past (e.g., South), the authorities could positively lower the risks of fragility. This effect would be increased if the central government can do so in a way that would devolve some control over resources to local authorities and would set up mechanisms to strengthen local accountability.</p> <p>The most significant risks are related to sustainable financing, the equitable allocation of domestic resources, and the management of human resources. Given the rapidly growing population, adequate resourcing – in financial and human terms – is important to ensure minimum access to and quality of services. Longstanding incentives for teachers and health care providers may be difficult to re-shape, particularly in an electoral period. Those sectors are also exposed to fluctuating budgets in times of crises.</p>		
CPF indicators	Supplementary Progress Indicators	WBG Program

<p>Stunting rate among children under 5 in project areas Data source: MICS Baseline (2018): Not yet available Target (2021): 1 percentage point reduction per year from baseline levels in project areas</p> <p>Number of students starting at the last level of the primary cycle (grade 5) Data Source: EMIS Baseline (2015/2016) for grade 1: 511,374 Of which girls: Baseline (2015/2016) for grade 4: 704,955 Of which girls: Target (2020/2021): TBD (final version of PSE) Of which girls:</p> <p>Repetition rate in primary education Data source: EMIS Baseline (2015/2016): 23 percent Target (2020/2021): 13 percent</p>	<p>Increased access and utilization of a package of interventions that reduce stunting (share of “beneficiaries” among total target population, in project areas) Data source: periodic regional smart surveys Baseline (2018): 0 Target (2021): 60 percent</p> <p>Deliveries attended by skilled health personnel (in project areas) Data source: periodic regional smart surveys Baseline (2018): Not yet available Target (2021): 20 percentage point increase from baseline level</p> <p>Children under six months who are exclusively breastfed (in project areas) Data source: MICS Baseline (2018): Not yet available Target (2021): 20 percentage point increase from baseline level</p> <p>Children between the age of 6 and 59 months old who receive Vitamin A supplements as per national guidelines (as a share of total target population, in project areas) Data source: project data/MICS Baseline (2018): Not yet available Target (2021): 70 percent</p>	<p><i>Portfolio</i></p> <ul style="list-style-type: none"> • Emergency Support Critical Education, Health and Nutrition Services Project (P148749) • Emergency Support to Education for All project – GPE (P132616) • Social Safety Net Project (P149323) • Public Sector Performance project (P150116) <p><i>Pipeline:</i></p> <ul style="list-style-type: none"> • Basic Education Support Project • Integrated Approach to Improving Nutrition Outcomes • Social Safety Net II project <p><i>ASA:</i></p> <ul style="list-style-type: none"> • Addressing malnutrition in Madagascar (P143293) • Raising Education Outcomes (P156330) • SDI survey • Impact Evaluation on chronic malnutrition • Impact Evaluation on the impacts and effectiveness of social safety net programs • Demographic dividend • Skills study
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	<p>Number of newly recruited community teachers completing accelerated initial training Data source: project progress reports Baseline (2016): 0 Target (2021): 21,786</p> <p>Number of children (ages 6-10) receiving cash transfers attending primary school Data source: FID Baseline (2017): 35,000 Target (2019): 75,000</p> <p>Number of households participating in parenting counseling Data source: FID Baseline (2017): 16,000 Target (2019): 80,000</p>	
Objective 2: Enhanced resilience of livelihoods of vulnerable households in rural and urban areas		
<p>The CPF aims to improve the resilience and income of farmers, forest users, and fishworkers through a series of investments and better management of natural resources. It will also improve their resilience against economic and weather shocks through social protection and disaster prevention strategies. In agriculture, an integrated 'landscape' programs will aim at promoting the adoption of climate-smart agriculture practices, supporting better hydrological services (e.g. more stable river flows, less sedimentation) and reducing deforestation. All irrigation infrastructure built through this program will meet anti-cyclonic norms. In the fisheries sector, the focus will be on sustainable management of fisheries and conservation of resources, including the promotion or strengthening of sustainable co-management arrangements and the development of priority fishery value chains and alternative livelihoods when needed. Those integrated approaches will also be supported by the Social Safety Net Project in which the poorest community members have the opportunity of earning a small income by realizing public works according to a community development plan. To address urbanization issues, the CPF program will improve drainage and sanitation infrastructures and invest in neighborhood upgrading in Greater Antananarivo. In light of the high cost of economic losses due to extreme weather events, authorities will be supported in developing a financial protection strategy.</p>		

These programs will design their activities so that women farmers and fishers can access them. Specifically, activities will be tailored to women so that they can participate in training and consultations activities, are supported in accessing extension and financial services, are participating in community associations, are fully aware of their land rights and are encouraged to pro-actively register themselves as main owner or co-owner with their partner.

The fight over natural resources – stemming from increasing demographic pressure, decreasing productivity of land, and increasing demand from external stakeholders – has been fueling fragility. The demand for high-valued biodiversity and mineral resources is coming from outside but generates a trafficking economy that can then contribute to the financing of local and national political activities. Those aspects can only be dealt with through more independent law enforcement, greater transparency, and scrutiny from civil society and media. If those efforts are successful, the authorities could then consider support the development of a sustainable forestry sector that would bring value to the local communities. In addition, by improving living conditions and economic opportunities in poor urban neighborhoods of the capital city, this program has the potential of reducing the political “instrumentalization” of those population groups as long as decision-making related to this program is determined by facts instead of local politics.

History shows that raising rural productivity faces many hurdles. The first risk is related to weather patterns and other disasters such as locust invasion. Recent efforts have focused on strengthening institutions and norms to mitigate those risks. In addition, it will be hard to change existing agricultural practices – in particular the habit of deforesting. The urban upgrading program also runs the risk of being used for political ends.

CPF indicators	Supplementary Progress Indicators	WBG Program
<p>Fishers participating in alternative fishing practices and livelihoods activities in the priority areas (number, of which female) Data source: alternative livelihood survey by third party (SWIOFish2 project) Baseline (2017): 0 Target (2023): 3,500</p> <p>Farmers directly benefitting from improved irrigation services and agricultural inputs and strengthened integrated management of natural resources (of which female) Data source(s): Sustainable Landscape Management Project M&E Baseline (2017): 0 Target (2022): 38,200 (40 percent)</p>	<p>Small-scale fishing units in the priority areas using prohibited gear observed during on-shore inspections (percentage) Data source: Review of on-shore inspection reports (SWIOFish2 project / MRHP & AGEX) Baseline (2016): 80 percent Target (2023): 30 percent</p> <p>Area provided with new/improved irrigation or drainage services Data source: Project progress reports Baseline (2017): 0 Target (2022): 63,000 ha</p> <p>Farmers adopting improved agricultural technology (of which female) Baseline (2017): 0</p>	<p><i>Portfolio</i></p> <ul style="list-style-type: none"> • Agriculture Rural Growth and Land Management Project (P151469) • Emergency Infrastructure Preservation & Vulnerability Reduction Project (P132101) • Emergency Food Security and Social Protection project (P147514) • Social Safety Net Project (P149323) and AF Social Safety Net Drought Response (P160554) • Sustainable Landscape Management Project (P154698) • SWIO Fisheries Governance and Shared Growth project (P153370)

<p>People in urban areas provided with access to improved urban services (disaggregated by sex) Data source: Urban Project & PIC 2 projects M&E Baseline (2017): 0 Target (2022): 789,000</p>	<p>Target (2022): 12,500 (5,000 female)</p> <p>Land area under sustainable landscape management practices Data source(s): Sustainable Landscape Management Project M&E Baseline (2017): 0 Target (2022): 550,000 ha</p> <p>Area benefitting from improved drainage coverage and flood protection measures in Greater Antananarivo Data source: Urban project M&E Baseline (2017): 0 ha Target (2022): 3000 ha</p> <p>National Disaster Fund established and operational Baseline (2017): No Target (2021): Yes</p>	<p><i>Pipeline</i></p> <ul style="list-style-type: none"> • Inclusive and Resilient Growth DPO • Integrated Urban Development and Resilience project for Greater Antananarivo • Social Safety Net II Project • Resilient Livelihood in the South • Integrated Poles and Corridors of Growth Project SOP -2 <p><i>ASA</i></p> <ul style="list-style-type: none"> • Precious woods • Smallholder Inclusion in Value Chains (P160761) • El Nino Impacts in Madagascar (P160145) • SWIO RAFI • Land Use Planning for Resilience
<p>Objective 3: Enhanced and effective decentralization</p>		
<p>The CPF will aim to support a more effective decentralization that should over the long term, contribute to re-balancing powers between the center and the “periphery” and thus reduce sources of fragility. It will do so through a dedicated program that combines technical assistance, investments and results-based financing. This program, which supports the implementation of the Government’s new National Decentralization Policy, will facilitate transfers from the central to local governments, strengthen local authorities’ capacity to collect local revenues (e.g., mining royalties, land taxes) and contribute to the delivery of basic services (e.g. education, health, land certification) in an accountable and participatory fashion. All IDA-funded projects that have interventions at the local level will seek to reinforce the capacity of regional and local entities. In addition, all programs will include components strengthening strategic communication, citizen engagement, and accountability mechanisms.</p> <p>Effective decentralization is the objective that could over time have the largest impact in addressing sources of fragility. The diversity and sheer size of the country calls for a greater devolution of powers. This process will have to be accomplished in a participatory way to ensure that it is a “win-win” for central and local governments. To be successful, it has to be complemented by activities under objective 4 (“enhanced transparency and accountability”).</p>		

<p>In terms of risks, this objective may not be achieved if the prevailing reluctance among ministries and central authorities to devolve power and resources to local entities is not overcome. It is likely that the upcoming 2018 presidential elections will also influence the speed of reforms.</p>		
CPF Indicators	Supplementary Progress Indicators	WBG program
<p>Percentage of budget allocated to Territorial and Decentralized Collectivities (CTDs) Data source: Ministry of Finance Baseline (2017): <5% of total budget Target (2021): > 10% of total budget</p> <p>Improved recovery of revenue by local Governments Data source: MID-ONCD Baseline (2017): N/A (baseline survey under way) Target (2021): 20 percent increase from baseline level</p>	<p>Number of communes with Local Government Index (LGI) higher than 6 Source: FDL Baseline (2017): < 5% Target (2021): > 60%</p> <p>Improved timeliness of fiscal transfers to local Governments Data source: MID Baseline (2017): N/A Target (2020): 30 days (tolerance limit in average for achievement of transfers)</p> <p>Number of communes using participatory budgeting Data source: FDL Baseline (2017): < 5% Target (2021): > 20%</p>	<p><i>Portfolio</i></p> <ul style="list-style-type: none"> Public Sector Performance Project (P150116) Integrated Poles and Corridor Project SOP-1 (P113971) <p><i>Pipeline</i></p> <ul style="list-style-type: none"> Inclusive and Resilient Growth DPO Integrated Urban development and Resilience project for Greater Antananarivo (P159756) Integrated Poles and Corridor Project SOP-2 <p>ASA</p>
Objective 4: Enhanced transparency and accountability		Objective 4:
<p>The CPF will seek to improve accountability in the management of public resources and the availability of development statistics that help support strategic decision-making. Through policy operations, the WBG will advance measures that enhance controls and transparency of public financial management at the national and local levels. As management of primary schools is gradually decentralized, it will reinforce mechanisms for local accountability through parents-teachers' associations. In addition, it will help INSTAT undertake the new census and a poverty household survey, and upgrade the national accounts. IDA-funded projects will fulfill the corporate engagement to include citizen engagement mechanisms that are gender-sensitive and will try to do so in a way that builds up an institutional practice among ministries and agencies involved.</p>		
CPF Indicators	Supplementary Progress Indicators	WBG program

<p>Open Budget index (OBI) Data source: Open Budget Initiative Baseline (2017): N/A (baseline survey under way) Target (2021): Moves one category up from baseline (from Scant/None Information Category to Minimal; or from Minimal Information Category to Limited)</p> <p>Increase in the Statistical Capacity Index (SCI) Score* Data source: World Bank Report Baseline (2016): 62.6 Target (2021): 71 * With a focus on the variables influenced by the World Bank interventions</p> <p>Total budget covered by audit Data source: PEFA evaluation Baseline (2017): 50 percent, excluding public agencies (EPIC-EPA) Target (2021): 70 percent, including EPIC-EPA</p> <p>Timely availability of Court of Account public budget report Data source: PREA-PSP Project M&E Baseline (2016): > 24 months after the end of the fiscal year Target (2021): < 12 months after the end of the fiscal year</p>	<p>Share of schools (targeted in the program) with an operational FEEFI, planning and implementing PECs Data source: PREA-PSP project M&E Baseline (2017): N/A (baseline survey under way) Target (2021): 75 percent</p> <p>Census undertaken and data published Data source: project M&E Baseline (2017): No Target (2018): Yes</p> <p>Financial flow from Central to local collectivities published Data source: Ministry of Finance website Baseline (2017): No Target (2021): Yes</p>	<p><i>Portfolio</i></p> <ul style="list-style-type: none"> • Financial Sustainability and Investment DPO-1 • Public Sector Performance Project (P160071) <p><i>Pipeline</i></p> <ul style="list-style-type: none"> • Financial Sustainability and Investment DPO-2 • Statistical Capacity Building Project (P160071) • Global Partnership for Social Accountability (GPSA) for Municipal Services <p><i>ASA</i></p> <ul style="list-style-type: none"> • Media & Public Service Improvement (P161374)
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FOCUS AREA II: PROMOTE INCLUSIVE GROWTH

Objective 5: Increased Fiscal Space to Finance Priority Social and Infrastructure Spending

The Government’s program to mobilize tax revenues, reduce non-targeted transfers and subsidies, transform its PFM practices will be supported through policy operations, results-based financing, and technical assistance. Measures will also be undertaken to monitor expenditure in priority areas, and support the prioritization of project selection as part of broader efforts to strengthen public investment management. Some of these investments might be developed as PPPs and thus the WBG will pursue its support to the authorities to develop a sound regulatory framework and acquire the necessary capacity to assess the financial and technical feasibility of those projects. It is also expected that levels of external financing will increase to finance investment projects, and so ensuring effective coordination among partners will be critical. In light of Madagascar’s potential for extractive industries, the World Bank will provide the authorities with international benchmarks to help them revise their mining and petroleum codes, including tax adjustments.

In itself, this objective does not act directly on fragility. However, by ensuring a more rigorous application of tax and customs regulations and by reducing losses of state-owned enterprises, activities under this objective will be touching upon vested interests that could be related to trafficking or to political financing. The latter point can only be dealt through the development over time of a more transparent framework for financing of political parties.

The highest risk to the realization of these reforms stems from political economy dynamics. Vested interests within the administration, SOEs, and private operators may lead them to stonewall reforms. Collusion may enable them to bypass new regulations with impunity. This risk will likely increase as the country nears elections.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Tax revenue as a percentage of GDP increased (% of GDP) Data source: MFB Baseline (2015): 10.4 percent Target (2021): > 13 percent</p> <p>Share of priority spending Date source: MFB Baseline (2015): 0.7 percent of GDP Target (2021): 2 percent of GDP</p> <p>Transfers and subsidies to non-priority expenditures as a proportion of total expenditure</p>	<p>Taxpayers (by sector) registered (number) Data source: MFB Baseline (2016): 200,000 Target (2021): 2,500,000</p> <p>TADAT indicator PO-8 “Efficiency of Revenue Management” – sub-indicators rated B Data source: TADAT Assessment Baseline (2015): 0 Target (2021): 2</p> <p>Number of PPPs that follow appraisal and selection processes under the PPP Act Data source: MFB</p>	<p><i>Portfolio</i></p> <ul style="list-style-type: none"> • Integrated Poles and Corridor Project SOP-1 (P113971) • Public Sector Performance Project (P150116) • Public Finance Sustainability and Investment DPO-1 <p><i>Pipeline</i></p> <ul style="list-style-type: none"> • Public Finance Sustainability and Investment DPO-2 • Programmatic DPO series (FY19 and beyond) • Financial Inclusion Project

<p>Data source: MFB Baseline (2015): 14 percent Target (2021): 2 percent</p>	<p>Baseline (2015): 0 Target (2021): 2</p> <p>Share of large investment projects subject to appraisal (projects at a minimum value of US\$15 million) Data source: MFB Baseline (2015): 0 Target (2021): 30 percent</p>	<p>ASA</p> <ul style="list-style-type: none"> • PPIAF • Support to SOE reforms • Madagascar EITA (P153564) • Donor Coordination for Results
<p>Objective 6: Improved business environment and access to finance</p>		
<p>The CPF program aims to improve the policy and regulatory environment, support a more consistent implementation by the administration, strengthen logistics and trade facilitation, increase access to finance for individuals and SMEs. These measures will seek to support fair and increased competition. By enhancing the ecosystem for firm growth, the CPF would try to unleash the productivity of MSMEs, thus offering more growth opportunities in the non-agricultural sector.</p> <p>Private investments are most sensitive to political instability. While reforms might be implemented, it might be harder to influence investors' perceptions of the political risk. Some of the necessary reforms could also run into opposition from vested interests and thus strong leadership will be required to carry them through.</p>		
<p>CPF Objective Indicators</p>	<p>Supplementary Progress Indicators</p>	<p>WBG Program</p>
<p>Improvement in the Doing Business Distance to Frontier Data source: Doing Business Report Baseline (2017): 45.10 percent Target (2021): 52 percent</p> <p>Adults with an account at a financial institution and/or mobile account Data source: Findex Baseline (2014): 8.6 percent Target (2021): 20 percent (with equal access among men and women)</p>	<p>Implementation of case allocation randomization in commercial courts (Antananarivo, Antsiranana) Data source: project M&E PIC2 Baseline (2016): No Target (2019): Yes</p> <p>Increased rate of confirmed suspicious customs transactions (Toamasina customs office) Data source: DG Customs Baseline (2016): 5 percent Target (2019): 12.5 percent</p>	<ul style="list-style-type: none"> • <i>Portfolio</i> • Integrated Poles and Corridor Project 2 (P113971) • ACGF Madagascar Financial Services Project (P109607) • Public Sector Performance Project (P150116) • Agriculture Rural Growth and land Management project (P151469) <p><i>Pipeline:</i></p> <ul style="list-style-type: none"> • Integrated Poles and Corridor project SOP2

	<p>Establishment of the collateral registry Data source: BCM Baseline (2015): no registry Target (2019): registry established and operating</p> <p>Direct Investment Flows (Vol) directly leveraged by either IDA loans/grants or IFC investment (breakdown by main sectors that drive jobs/Tech/Forex Income) (breakdown by foreign/local) Data source: IFC/Projects M& E Baseline (2017): US\$0 million Target (2021): US\$200 million</p> <p>Number of private investments (above US\$20m) committed through EDBM Data source: EDBM/projects M&E Baseline (2017): 0 Target (2021): 5</p>	<ul style="list-style-type: none"> • Financial Inclusion Project • Public Finance Sustainability and Investment DPO • Inclusive and Resilient Growth DPO <p><i>IFC</i></p> <ul style="list-style-type: none"> • Madagascar Investment Climate Reform • GTFP BOA • Access Bank • MicroCredit Madagascar MCFTA <p><i>ASA</i></p> <ul style="list-style-type: none"> • TA Microfinance Supervision (P153761) • Payments System Project (P156390) • Study on State-Owned Enterprises • Analysis on competitiveness
<p>Objective 7: Strengthened rural productivity</p>		
<p>Reducing poverty in rural areas can be accelerated by enhancing the productivity of MSMEs that can offer on-farm and off-farm livelihood opportunities. In light of Madagascar’s potential in a wide range of value chains (including spices and essential oils, fruits and vegetables, livestock, and seafood products) that can be marketed on domestic and international markets, the CPF program will aim to support the development of value chains that involve smallholder producers. Financing operations will aim to develop the links between agriculture and agri-business development through increased productivity, knowledge transfer, access to improved inputs infrastructure improvement and credit facilitation. One important element will be the support to the implementation of the National Land Policy with the objective of scaling up land certification. Access to credit for smallholder producers and rural fishers will also be supported. IFC investment and advisory services will support firms in all agri-business sectors. In light of the importance of women’s participation in agricultural value chains and their specific challenges in accessing financial services and land, care will be taken to design those programs in a gender-sensitive way.</p>		

This approach faces a series of risks linked to the limited capacity of Ministries to coordinate their actions to facilitate private investments and put in place policies and institutions that are conducive of private activities. Access to land remains a major constraint and although authorities have designed a sound land registration that involves local entities, implementation will be challenging and will likely face continued resistance within the national land administration. In addition, there is a time lag between land registration, access to finance, and greater investments by farmers, suggesting increased productivity through this lever may take a longer period.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Increased value of exports in supported agricultural value chains (US\$) Data source: INSTAT Baseline (2016): 0 (by definition) Target (2021): US\$50 million</p> <p>Land parcels with use or ownership rights recorded (disaggregated by sex) Data source: Land Observatory Baseline (2017): 120,000 Target (2021): 740,000</p>	<p>Farmers reached with agricultural assets and services (Disaggregated by sex) Data source: project progress reports (WB & IFC) Baseline (year): 28,000 Target (year): 67,900</p> <p>Beneficiaries of job-focused interventions in rural areas Data source: ISR and ICR of WBG Portfolio Baseline (2017): 28,000 Target (2021): 146,800</p> <p>Number of loans introduced for agribusiness MSMEs in the PPGG fund by partner financial institutions Data source: ISR and ICR of CASEF and PASEF Baseline (2017): 20 Target (2021): 950</p>	<p><i>Portfolio</i></p> <ul style="list-style-type: none"> • Emergency Food Security and Social Protection Project (P147514) • Agriculture Rural Growth and Land Management Project (P151469) • Integrated Poles and Corridor Project SOP-1 (P113971) • Sustainable Landscape Management Project (P154698) • SWIO Fisheries Governance and Shared Growth project • ACGF - Financial Services Project (P109607) <p><i>Pipeline</i></p> <ul style="list-style-type: none"> • Integrated Poles and Corridor Project SOP-2 • Financial Inclusion Project <p><i>IFC</i></p> <ul style="list-style-type: none"> • SMTP Poultry Farming (Project ID: 36704) <p><i>ASA</i></p> <ul style="list-style-type: none"> • Blue Economy

Objective 8: Improved access to energy and transport

Access to infrastructure – in particular energy and transport – is among the most serious challenges constraining the development of economic activities by the private sector and limiting reduction of poverty in urban and rural areas. Those challenges can be overcome through a combination of policy

measures, public investments, and private investments. The WBG will thus make full use of its advisory and financing services under IDA18 to leverage private investments in the energy and air transport sectors. In terms of road transportation, the efforts will focus on opening up areas that have a strong economic potential (agriculture, fisheries, tourism) and connecting them to markets.

While the expansion of infrastructure should not be controversial, the measures to reinforce the governance of the energy and transport sectors may run into difficulties. These sectors are considered as national strategic interests and it will be useful for reforms to be supported by a consensus among the executive and legislative authorities, the private sector and the consumers.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Total electricity losses per year Data source: JIRAMA Baseline (2016): 35 percent Target (2021): 26 percent</p> <p>Share of population with access to electricity services through grid and off-grid solutions³⁶ Data Source: ORE/ADER Baseline (2016): 13 percent Target (2021): 20 percent</p> <p>Roads constructed or rehabilitated (disaggregated by rural and non-rural) Data source: project progress reports Baseline (year): 0 km Target (year): 200 km</p> <p>Number of airport passenger arrivals (of which international) Data source: ADEMA / RAVINALA Airports Baseline (2016): 625,331 (330,528) Target (2021): 877,059 (463,582)</p>	<p>Total electricity sales (kWh) covered by the Revenue Protection Program Data source: JIRAMA Baseline (2016): 0 percent Target (2021): 50 percent</p> <p>Variable Cost of electricity production (cents per kWh) Data source: JIRAMA Baseline (2015): 22 Target (2021): 15</p> <p>Investment Commitment of IFC in Renewable Energy projects Data source: IFC Baseline (2017): 0 Target (2025): US\$225m (incl. mobilization)</p> <p>GHG emissions expected to be reduced (metric tons CO₂e/year) Data source: Baseline (2017): 0 tons</p>	<p><i>Portfolio</i></p> <ul style="list-style-type: none"> • Electricity Sector Operations and Governance Improvement Project (P151785) • Emergency Infrastructure Preservation & Vulnerability Reduction Project (P132101) • Agriculture Rural Growth and Land Management project (P151469) • Integrated Poles & Corridor Project SOP-1 (P113971) • Public Finance Sustainability and Investment DPO • SWIO Fisheries Governance and Growth project (P153370) • Sustainable Landscape Management Project (P154698) <p><i>Pipeline</i></p> <ul style="list-style-type: none"> • Inclusive and Resilient Growth DPO • IFC Scaling Solar • IFC and MIGA: Ravinala airport concession project

³⁶ i.e. complying with a minimum of Tier 2 access Level or a 50W capacity level in line with SE4ALL Multi-Tier-Framework (2016)

	<p>Target (2025): 150,000-190,000 tons CO₂e/year</p> <p>Number of regional and long-haul frequencies per year serving Madagascar</p> <p>Data source: ADEMA Baseline (2016): 1501 Target (2021): 1800</p>	<ul style="list-style-type: none"> • Integrated Poles & Corridor Project SOP-2 (P113971) • Rural Transport Connectivity project • Least-Cost-Electricity Access Development (LEAD) Project (P163870) <p>ASA</p> <ul style="list-style-type: none"> • Renewable Energy mapping (P145350) • Energy Short term measures support • Support for the development of hydro IPP (P153220)
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Annex 2: Completion and Learning Review

Country:	Republic of Madagascar
Coverage:	FY07-13 Madagascar CAS (FY07-FY11) and Madagascar ISN (FY12-13)

Introduction and Summary of CLR Findings and Ratings

1. This Completion and Learning Report (CLR) draws out lessons learned from the implementation of the two most recent country strategies with the Republic of Madagascar: the FY07-FY11 Country Assistance Strategy (CAS), which was interrupted by the 2009-2013 crisis, and the FY12-FY13 Interim Strategy Note (ISN) which framed the Bank's engagement during the crisis. This CLR rates achievements over the entire CAS / ISN cycle against the targets set out in the results matrix for the ISN. The ISN results matrix was built on the CAS Results Framework: it adjusted it to reflect what was expected to be achieved during the ISN period. Both the CAS and ISN were focused on reducing extreme poverty in Madagascar.

2. This CLR sheds light on several lessons and recommendations that have also been identified through the Bank's work in other fragile situations:

- In a crisis environment, it is critical for the Bank to be realistic and focused about what can be accomplished through financing operations, especially when the resolution to a political crisis is not in sight. Although engagement was sustained in Madagascar through the existing portfolio, it was constrained by the limitations put on the Bank's dialogue with the authorities. A restructuring of the program occurred in late FY11. It would have benefited from an earlier and more thorough review of project and program targets so that activities and expectations would be aligned with the overall country environment.
- In volatile situations, a stronger understanding of the political economy environment is essential. The Bank can do more to understand the role of public institutions that have played a prominent role during all periods of political instability, including the military. In Madagascar, the Bank started putting more emphasis on the political economy dynamics of the country and on the socioeconomic costs of the crisis during the latter part of the crisis.
- Flexible and cost-effective delivery modalities – such as community-driven approaches – are crucial to sustain results on the ground in fragile states. In the case of Madagascar, projects aiming to support basic service delivery at the community-level were developed only late in the ISN period once new financing had been authorized.
- The next CPF should have a results framework that is SMART with a limited number of outcomes, and timely review of strategic directions and portfolio performance. The ISN was overly ambitious with 29 distinct objectives, of which 15 were carried over from the CAS.

3. The CLR aims to assess the pertinence of the design of the CAS and ISN (e.g. strategic alignment of the activities with the objectives and context, candor of the risk assessment, appropriateness of the risk mitigation measures), the quality of the implementation, and the level of achievement of expected results. It is based on a desk review of key operational documents (ISRs, MTRs, ICRs, Aide-mémoires, Sector Reviews, IEG evaluations, and PRSP implementation reports) and analytical reports, as well as interviews with a range of stakeholders within the government, development partners, Project Implementation Units (PIUs), and WBG staff. Section 1 presents a summary of CLR findings and WBG performance assessment ratings. Section 2 reviews the key pillars of the CAS and ISN while section 3 assesses the design and implementation dimensions. Section 4 attempts to draw some key lessons.

4. As background to this CLR, it might be useful to be reminded of the history of political instability of Madagascar, as exemplified by the unconstitutional change of power that took place in 2009 and

disrupted the CAS cycle. Since independence in 1960, Madagascar has experienced major political and economic crises, accompanied by large drops in GDP per capita: every period of economic growth has been overshadowed by an even longer and deeper period of economic decline, coupled with long spells of autocracy, Marxist socialist economic policies, and fragility. For illustration, GDP per capita in Madagascar halved between 1972 and 2002, hitting an all-time low of US\$249. Hereafter, growth resumed and the country saw strong economic growth until 2009 under a democratically elected government with GDP per capita rising to US\$282 in 2009. The coup d'état in January 2009 put Madagascar back on a negative economic course, pushing the country close to a new low GDP per capita of US\$270 in 2013 (WDI indicators and 2015 SCD).

5. The 2009 coup d'état and ensuing political instability severely affected the activities covered under the FY07-11 CAS. Prior to the crisis, the Bank program in Madagascar was one of the largest in Africa Region. Net commitments totaled US\$1.03 billion with US\$300 million undisbursed. The portfolio was characterized by low commitments at risk (15 percent) and a high disbursement ratio (33 percent). The increased IDA15 envelope and Madagascar's improved CPIA rating led to a significant increase in Madagascar's IDA allocation, which rose from US\$145 million per year to about US\$160 million per year over the period FY07-09. Following the unconstitutional change in power in March 2009, OP 7.30 (dealing with de facto governments) was put in effect in March 2009.

6. Under OP7.30, disbursements were put on hold for all projects starting March 17, 2009. In April 2009, all projects in the Madagascar portfolio that had not been supervised within the last 6 months were downgraded: 50 percent of the portfolio was then rated moderately unsatisfactory or unsatisfactory. Disbursements resumed on an exceptional basis in December 2009 for selected components of 5 operations on humanitarian and safeguards grounds. Another exception was granted by management in May 2010 to resume disbursements for selected projects, to pay arrears and the funding of PIUs to perform essential fiduciary/management functions. Finally, in May 2011, authorization was granted to undertake a major restructuring plan and resume implementation of the entire portfolio. Contacts with officials were limited to below ministerial level. While project supervision continued, it became difficult to have the leading Ministries implement actions to address any of the observed weaknesses. Ratings for CAS Outcomes are therefore generally modest to negative.

7. In early 2011, a Roadmap to Peace (including elections) was initiated under the stewardship of the Southern African Development Community (SADC). Although still under OP7.30, the Bank opted to develop an ISN to cover the period of FY12-FY13. It involved a significant cleaning of the existing portfolio. Out of a portfolio of 13 projects in 2011, 6 projects underwent a major restructuring through re-definition of their components and/or objectives, cancellation of funds, reallocation of funds, extension of closing dates and re-definition of results framework. The other 7 projects revisited their approach, re-oriented their activities geographically, and sought to complement other projects.

8. The results framework in the ISN selectively combined CAS objectives and new objectives adapted to the ISN circumstances. Despite the fact that CAS implementation was "interrupted" by the crisis and new financing was constrained to a level well below what was originally envisioned, some CAS objectives were deemed to remain achievable during the ISN period based on implementation of the project portfolio. These objectives were retained while additional objectives were added in the ISN. Altogether there were 29 objectives in the revised results matrix across three pillars, of which 15 were carried over from the CAS to the ISN.

9. Bank performance over the CAS and ISN periods is rated as Poor. Factors influencing the rating include the poor design of the CAS, weak results frameworks for both CAS and ISN, and low Outcome ratings for both CAS and ISN. Last, the CAS did not follow up on the risk mitigating measures it identified. Positive aspects of the Bank performance include the launch of a substantial ASA program.

Highlights of Program Performance

Table 1: CAS cycle (CAS and ISN) ratings

Achieved (A): outcome fully achieved; Mostly Achieved (MA): good progress toward achieving the outcome; Partially Achieved (PA): limited progress toward achieving the outcome; Not Achieved (NA): little progress toward achieving the outcome; Not Verified (NV): There is insufficient evidence to assess achievement of outcome.

Objectives in *italics* were carried over from the CAS.

CAS CYCLE OUTCOMES AND INDICATORS	Rating
ISN FY12-13 overall rating	U
ISN Pillar 1: governance and public sector capacity	HU
1.1 Improved and broad understanding of Governance issues	NA
1.2 Improved public service delivery in pilot areas	MA
1.3 Improved community participation in governance	PA
<i>I.1 Improved governance in natural resource sectors</i>	NA
<i>I.2 Improved voice and accountability as measured by WBI Governance indicators</i>	NA
<i>II.2 More efficient public expenditure management</i>	NA
<i>II.3 Improved public service delivery</i>	PA
ISN Pillar 2: employment and competitiveness	U
2.1 Improved business environment	PA
2.2 Improved support for productivity in agriculture	A
2.3 Addressing emergency repairs and accessibility of transport network	PA
2.4 Increased access to ICT services for poor communes	A
2.5 Improved knowledge and technical dialogue for future investments in the energy sector	A
<i>I.4 Better economic outcomes in “growth poles” areas</i>	MA
<i>I.5 Improved access to finance</i>	NA
<i>I.6 Increase competitiveness and diversification in agriculture</i>	NA
<i>I.7 Improved accessibility and reliability of roads</i>	NA
<i>I.8 More efficient and reliable railway operations along the corridor between capital and Toamasina port</i>	PA
<i>I.10 Lower telecommunication costs and improved accessibility</i>	MA
<i>I.11 Improved efficiency of power supply</i>	NA
ISN Pillar 3: vulnerability and resilience	U
3.1 Continued protection of the environment	PA
3.2 Improved protection of the vulnerable	PA
3.3 Improved preparedness to deal with natural disasters	A
3.4 Improved monitoring of education sector performance	NA
3.5 Improved mother and child health services and HIV prevention	MA
3.6 Improved nutrition for children under two years of age in target areas	A
<i>I.12 Better management of environment</i>	PA
<i>II.5 More effective delivery of health services</i>	NA
<i>II.6 Incidence of HIV/AIDS and sexually transmitted infections kept under control</i>	PA
<i>II.7 Reduced underweight malnutrition</i>	A

ISN Pillar 1: Governance and Public Sector Capacity: Highly Unsatisfactory

10. Governance and public sector capacity being the most serious widespread and transversal issues that affect the development agenda, Pillar 1 aimed to strengthen the supply and demand sides of governance. Key interventions were to improve the transparent management of public finances, namely to ensure effective public service delivery and improve a transparent mechanism for revenue tracking of natural resources products. Social mobilization and citizens’ empowerment programs were also at the heart of Pillar 1 to foster a reaching out strategy for the poor so that they were in a stronger position to demand better governance. Three operations were implemented to meet these objectives.

11. Progress towards ISN Pillar 1 (governance and public sector capacity) is rated Highly Unsatisfactory. Progress under this Pillar is measured against seven Outcomes, of which the majority (four) are rated Not Achieved. The four Outcomes rated Not Achieved are: improved and broad understanding of governance issues (ISN Outcome 1.1), improved governance in natural resource sectors (CAS Outcome I.1), improved voice and accountability (CAS Outcome I.2), and more efficient public expenditure management (CAS Outcome II.2). The remaining three Outcomes under ISN Pillar 1 are all rated Partially Achieved and include improved public service delivery in pilot areas (ISN Outcome 1.2), improved community participation in governance (ISN Outcome 1.3), and improved public service delivery (CAS Outcome II.3).

12. For ISN Outcome 1.1 (improved and broad understanding of Governance issues), none of the two indicators were met: no official PER was produced between 2007³⁷ and 2013 and no new Governance Action Plan (GAP) was prepared within the ISN period. Progress against ISN Outcome 1.2 (improved public service delivery) was strong in relation to the first of two indicators where 69 communes started decentralization pilots through the Local Development Fund (FDL). The second indicator under ISN Outcome 1.2 measured operational efficiency of land tenure kiosk and here progress was less than 60 percent of target. Under ISN Outcome 1.3 (improved community participation in governance), participatory budgeting reached about 15 municipalities and 200 community scorecards pilots were rolled out. Support for the EITI initiative to go through the validation process took place prior to the ISN and the suspension of Madagascar by the EITI Board was only lifted in June 2014, hence no progress against this indicator took place during the ISN period, although Madagascar continued to produce annual EITI reports throughout the crisis. There was little or no progress towards more transparent and competitive forestry concessions (CAS Outcome I.1), WGI indicators for voice and accountability (CAS Outcome I.2), and CAS Outcome II.2 (more efficient public expenditure management), which are all rated Not Achieved. There was limited progress towards improved public service delivery (CAS Outcome II.3), where a greater share of the annual budget was transferred to local governments, but the budget for salaries remained under central government control.

ISN Pillar 2: Employment and Competitiveness: Unsatisfactory

13. Pillar 2 aimed to improve business environment that would boost employment creation and strengthen competitiveness in key sectors. Key interventions were to facilitate business creation, promote public private partnerships, improve support for productivity in agriculture, and improve road, railway, energy and telecommunication infrastructures. 10 operations were implemented to meet these objectives.

14. Progress towards ISN Pillar 2 (employment and competitiveness) is rated Unsatisfactory. Progress is measured against twelve Outcomes. Four Outcomes are rated Not Achieved, three Outcomes are rated Partially Achieved, two Outcomes are rated Mostly Achieved, and three Outcomes are rated Achieved.

15. ISN Outcomes 2.1 and 2.3 covering improved business environment and emergency repairs and accessibility of the transport network are all rated Partially Achieved due to limited progress towards targets. Indicators that were achieved include support for productivity in agriculture, the delivery of a geological map and exports from Fort Dauphin Ehoala Port above target. Indicators that were either Partially Achieved or Not Achieved include lack of agreement on a PPP framework, limited increase in the share of households with access to potable water in the Nosy Be area, lack of progress in relation to increase in rice under irrigation, and launching, but not finalizing repairs of rural bridges.

16. ISN Outcome 2.4 (increased access to ICT services for poor communes) and 2.5 (improved knowledge and technical dialogue for future investments in the energy sector) are all rated Achieved. Achievements under these two Outcomes include more than a tenfold increase, from 51 to 563, of

³⁷ A “preliminary and incomplete version” in French was produced in 2011, before the ISN came into effect.

poor communes with communication and broadband access, delivery of feasibility studies for the energy sector.

17. CAS Outcome I.4 (better economic outcomes in the growth poles) is rated Mostly Achieved given good progress towards the Outcome's two quantitative indicators related to job creation and tourist arrivals.

18. CAS Outcomes I.5, I.6, and I.7, covering the areas of improved access to finance, increase competitiveness and diversification in agriculture, and improved accessibility and reliability of roads, are rated Not Achieved. Under CAS Outcome I.5, there was little or no increase in access to micro-finance, private sector credit/GDP, and leasing operations, but full progress towards a more efficient payment system. Under CAS Outcome I.6 progress for three indicators could not be verified resulting in no increase in use of inputs (fertilizer), no increase in farmers operating at international standards, and no strengthening of capacity of the Fisheries administration.

19. CAS Outcomes I.8 (more efficient and reliable railway operations along the corridor between capital and Toamasina port) is rated Partially Achieved and I.10 (lower telecommunication costs and improved accessibility) is rated Mostly Achieved. Under CAS Outcome I.8, rail operations safety decreased while the share of goods transported by rail increased. Under CAS Outcome I.10, the price of wholesale international data traffic decreased from US\$8,000 to US\$5,412, but not enough to meet the target of US\$2,500 and in terms of accessibility, the 50 percent target of increased number of connected localities is met.

20. CAS Outcome I.11 (improved efficiency of power supply) is rated Not Achieved as network losses and use of diesel for electricity generation increased.

ISN Pillar 3: Vulnerability and Resilience: Unsatisfactory

21. Pillar 3 aimed to reduce vulnerability and improve resilience in addressing the most urgent problems posed by the crisis, namely by reestablishing an adequate level of service provision in health, nutrition, education and social protection and by building resilience to shocks, such as natural disasters, price hikes, political instability and the impacts of the climate change. Key interventions were defined to ensure continued protection of national parks, implement cash-for-work programs, adopt risk-reduction measures and cyclone-proof housing construction norms, monitor education sector performance, increase the utilization of primary health care and improve nutrition for children under two years of age in targeted areas. Four operations were initiated to meet these objectives late in the ISN period, all of which will close in FY17-FY18.

22. Progress towards ISN Pillar 3 is rated Unsatisfactory as progress towards Outcomes under the Pillar was limited or lacking for six of the Pillar's ten Outcomes.

23. Progress for ISN Outcomes 3.1 (continued protection of the environment) and 3.2 (improved protection of the vulnerable) is rated Partially Achieved. Under these two Outcomes official political commitment to Madagascar's national parks remained high, but at the same time illegal logging and mining in the parks continued and even thrived. Revenues from national parks fees almost met the target. Two reports on poverty assessment and vulnerability were in progress, but not finalized during the ISN period. One indicator, creation of employment, exceeded its target.

24. Progress for ISN Outcome 3.3 (improved preparedness to deal with natural disasters) was Achieved. The same rating is obtained for ISN Outcome 3.6 (improved nutrition for children under two years of age) and CAS Outcome II.7 (reduced underweight malnutrition). Achievements under these Outcomes include the development of climate-proof construction standards for primary schools, roads, and irrigation infrastructure that have been used since in all Bank-funded projects and have proven to increase infrastructure resilience to cyclones and floods. ISN Outcome 3.5 (improved

mother and child health services and HIV prevention) was mostly achieved as all mother and child health services targets were met, while the use of condoms for certain population segments did not meet targets.

25. ISN Outcomes 3.4 (improved monitoring of education sector performance), CAS Outcome I.12 (better management of the environment), CAS Outcome II.6 (incidence of HIV/AIDS and sexually transmitted infections kept under control), CAS Outcomes II.5 (More effective delivery of health services) were rated either Not Achieved or Partially Achieved. In the education sector, tools to monitor changes in the number of out-of-schools are still under-development but targeting mechanisms from the demand and supply side to address out-of-school issues have been adopted in 2015 and are now implementation. As for the health indicators, these indicators should have been dropped as they are linked to the Joint Health Sector Support project, which was dropped following OP 7.30 instructions that preclude the submission of new loans to the Board. Outcome I.12 (Better management of environment) showed little progress. Key facts have demonstrated that national efforts to protect national parks exist but poaching of hardwood and fauna and artisanal mining continue.

3. Review of WBG Performance

26. Bank performance during the CAS/ISN period for Madagascar FY2007-2013 was Poor. The rating is justified on the following grounds: the CAS design failed to contribute to achievement of CAS Objectives. The CAS results framework was incomplete and risk mitigation inadequate. During the ISN period the results framework was expanded rather than becoming more focused. A strong feature of the Bank's engagement in Madagascar was its adaptation to Madagascar's changing circumstances and the launch of an important ASA program, which included highly relevant and much needed Political Economy analysis.

CAS Design

Key strengths: (a) strong alignment with GoM priorities (Madagascar Action Plan – MAP);³⁸ (b) emphasis on integration of cyclone risk in project design; (c) integration of some lessons from CAS (2003).

Key weaknesses: (a) risk assessment and mitigation measures; (b) results matrix, in particular quality, length, and duplication of Outcomes and indicators.

27. The CAS for Madagascar FY07-11 was well aligned with the MAP's eight national commitments. The CAS put emphasis on both safeguard and fiduciary issues with a decentralized team covering both aspects. Environmental and social safeguards were considered across the Madagascar portfolio. It is worth noting that important lessons from the 2003 Madagascar CAS were addressed over the CAS cycle. As such, both the 2007 CAS and the ISN incorporated cyclone proof building standards (protection against rain and flooding) in line with the Bank's safeguard framework. These were integrated into the infrastructure projects.

28. CAS Pillar I focused on activities to remove key bottlenecks to investment and growth, while CAS Pillar II focused on improving access to – and quality of – services. A crosscutting element of the CAS was improving governance and reducing corruption. Emphasis in the CAS was also put on coordination with Development Partners (DPs), use of Sector Wide Approaches (SWAs), and phasing out of the use of Project Implementation Units (PIUs). Yet, the 2009 political crisis forced the Bank to continue relying on PIUs and hence the phasing out of this approach has been postponed in Madagascar.

³⁸ The eight MAP commitments are: (1) responsible governance, (2) connected infrastructure, (3) educational transformation, (4) rural development and a green revolution, (5) health, family planning, and the fight against HIV/AIDS, (6) high growth economy, (7) cherish the environment, and (8) national solidarity.

29. The CAS correctly identified risks to development progress, notably in relation to natural risks, more specifically cyclones. Madagascar is hit by an average of three to four cyclones per year and cyclical droughts and floods adversely impact agricultural production. Project design took certain natural risks (e.g. cyclones) well into account across the project portfolio and the CAS recommended that cyclones be viewed as an integral risk to the country's development and the Bank's program.

30. The CAS further identified political instability and governance as risks to progress and pointed out that the likelihood of political instability was significant given Madagascar's history. Concentration of economic growth was identified as a main source of political instability, particularly in combination with Madagascar's growing and youthful population. A second risk pointed out by the CAS was the unclear delineation between public office and private interests. Yet, the mitigation measures proposed under the CAS were modest and paid insufficient attention to how the CAS program could adapt to increased instability saying only that "IDA would adjust its program in line with the new circumstances".

31. The design of CAS Pillar I led to a lengthy results matrix with 13 Outcomes and 31 indicators. Both the number of Outcomes and indicators, duplication, and definition of Outcomes weakened the adequacy and appropriateness of CAS Pillar I. CAS Pillar II was relatively lighter in terms of Outcomes counting 7 Outcomes, but with a relatively larger number of indicators totaling 20. Poor wording and quality characterize the CAS results matrix. Examples included lack of quantification of indicators, mix-up of Outcomes and indicators, too modest targets for several indicators, and duplication. The CAS results matrix for Madagascar was developed prior to the Bank's increasing focus on the Results Agenda (the use of standardized Core Sector Indicators was introduced in 2009). It is therefore not surprising that a review of the CAS results matrix highlights some weaknesses related to focus, duplication, and quantification of indicators. Yet, more care could have been taken in the wording of indicators as well as ensuring reliable data sources for these indicators. A full account of Outcome and indicator issues is available in the Results Matrix column "comments and lessons learned."

ISN Design

Key strengths: (a) grounded in a portfolio-wide restructuring; (b) largely correct assessment of Madagascar's policy framework and Madagascar's challenges; (c) strong focus on Political Economy and substantial AAA program.

Key weaknesses: (a) lengthy and overly optimistic results framework; (b) quality of results framework indicators.

32. The ISN updated the CAS results framework, retaining CAS objectives that were deemed to remain attainable while adding additional indicators tailored to the crisis environment. The approach of the ISN was to focus on achieving development objectives through a restructured portfolio that had had disbursements suspended briefly. No new lending had been approved since March 2009 and the approach to new lending was to be "cautious, strategic and selective" focusing on mitigating the impact of the ongoing crisis (the resolution of which remained uncertain) on the poor. The Bank's approach was supported by the 2011 WDR, which references the African Union's view that donor support to social programs and poverty reduction programs should continue in countries that had experienced coup d'états, while larger scale support should be paced to support the return to a "constitutional path." Further, the WDR notes that where the political situation is fragile and the capacity of local systems to ensure accountability is weak, international incentives – such as recognition and sanction mechanisms – also play a significant role.

33. Although a results framework is not a requirement for an ISN, the ISN included a reworked version of the results framework inherited from the CAS and aligned with the Country Development Goals formulated prior to the coup d'état. The ISN explained that the de facto government made no formal statements with regards to the MAP, but by default the MAP was still the basic policy framework for the administration. Hence, the ISN's three pillars seemed relevant to the MAP, more specifically in relation to MAP commitments 1, 2, 4, 5, 6, and 8.

34. The crisis in Madagascar prompted the Bank to undertake a profound ASA program³⁹ with a view to highlighting the impact of the crisis on the poor, while laying the analytical foundation for a post-crisis Bank Group strategy. The ASA work disclosed the dire situation and severe economic impact of the political crisis: about half of the Malagasy population is undernourished (chronic malnutrition remain consistently high in Madagascar), children face multi-faceted risks including low human capital development (out-of-school children is estimated at about 1.4 million), child labor and marginalization, maternal mortality has stagnated over the last decade, and close to 75 percent of the Malagasy population lived in poverty in 2010 (corresponding to about 16 million people), while 60 percent of the population was estimated as extremely poor (corresponding to about 13 million people).

35. The ASA program is an example of how the Bank can make the most of a challenging situation, and provides a strong foundation for the development of Madagascar's CPF. In a context where new lending was constrained and the Bank's decision was to stay engaged, the Bank tried to derive the greatest benefit possible from the portfolio and use IDA funds to try to limit the impact of the crisis on the poor. This approach helped keep social service delivery going and facilitated resumption of lending activities after the crisis. Unfortunately, this approach did not have a positive impact on PDO ratings, which had no Satisfactory ratings during or after the ISN period and four of nine projects rated Marginally Unsatisfactory. Five projects had PDO achievement ratings of Marginally Satisfactory.

36. Having a results matrix in the ISN is not standard, but reflected the Bank's ambition – wise or not – of trying to continue the work of the CAS where possible. The ASA program addressed the deep need for a better understanding of the dynamics, which led not only to the 2009 crisis, but Madagascar's cyclical political meltdowns, which – besides during autocratic rule – have occurred once or twice every decade since Madagascar's independence.

37. With the FY12-13 ISN, the results framework was spread over three Pillars compared to the CAS' two pillars. The ISN results framework operates with 14 outcomes and 30 indicators against the CAS' 20 outcomes and 51 indicators. While the ISN results framework was slimmed down compared to the CAS results matrix in absolute terms, it grew dramatically in relative terms, as the ISN was in effect for two years compared to the CAS' five years. As such, the ISN results framework was nearly twice the size of the CAS results framework in relative terms.

38. As is the case for the CAS results framework, further tightening and recasting of the ISN framework was possible. Under ISN Pillar 2, the first two Outcomes could have been merged, as they both relate to doing business. Under ISN Pillar 3, Outcomes 3.2, 3.3, 3.4 and 3.6 could have been merged as they all relate to vulnerability.

39. In sum, the ISN could have produced a sounder results framework through the selection of more robust indicators and by adopting a more realistic approach to what could be accomplished given the uncertain political situation. Given that the ISN was written years after the introduction of the results-based CAS and the introduction of Core Sector Indicators, it should be expected that the results framework of the ISN would be of a higher standard than the CAS. Yet, two issues stand out in this respect. First, the ISN results framework expanded relative to the CAS. Second, imprecise wording of indicators is widespread in the ISN results framework. Overall, the ISN results framework was too ambitious given the ISN's short timeframe. More selectivity and prioritization should have gone into the design of the ISN results framework

³⁹ Output under the program include: *Face of poverty in Madagascar-Poverty, Gender and Inequality Assessment* (2014); *Primary Education in Times of Crisis* (2013); *Health, Nutrition, and Population in Madagascar 2000–09* (2011), and; *Madagascar Three Years into the Crisis-An Assessment of Vulnerability and Social Policies and Prospects for the Future* (2014).

CAS Implementation

Key strengths: (a) management of the project portfolio during crisis.

Key weaknesses: (a) lack of attention to risk associated with mix of public office and private interests and demographics; (b) lack of candor and lack of focus in CPIA exercise.

40. The rating for CAS implementation is Poor. Implementation of the CAS failed to adequately contribute to the pursuit of the CAS Objectives. The failure to pursue CAS Objectives was in part due to the political crisis arising in 2009, which made supervision and dialogue difficult. In addition, CAS implementation did not take into account risk warning signs regarding governance and political stability in the first two years of the CAS.

41. Due to the advent of the political crisis in 2009, the implementation of the Madagascar CAS was limited to less than two years, from March 2007 to January 2009. Three projects closed during this period, the Sustainable Health System Development project (P103606) with a Satisfactory supervision rating and two with Moderately Unsatisfactory supervision ratings. For the two projects with Moderately Unsatisfactory supervision ratings, the ICRs note that limited supervision due to the political crisis impacted supervision ratings negatively and namely a more active engagement with the Government at high level could have addressed challenges of implementation.

42. With the emergence of the political crisis, the Bank tried to keep projects operational, until the formulation of the ISN for FY12-13. The Bank's efforts resulted in the restructuring of the portfolio in 2011. The Bank should be commended for handling a very challenging situation in a way, which allowed for the Bank to protect its investments and subsequently resume operations. It is, however, crucial to highlight some operational challenges generated by the application of OP 7.30 as a result of the political crisis. The freeze of disbursements led to non-payment of existing contracts, which resulted in significant losses incurred by non-governmental end-beneficiaries, both individuals and SMEs. It also brought institutional costs, including loss of capacity in executing agencies and sometimes reversal of ongoing policy reforms. Financial costs had also increased due to penalties for early termination of contracts, the need to re-tender, limited availability of bidders and hence less competition for future tenders. Besides, the Bank had to manage reputational risks as the situation resulted in breaking existing contracts. For example, under the Irrigation and Watershed Management Project, a new approach had been developed to increase ownership of activities by beneficiaries and this required the contribution of 20 percent cash payment upfront by farmer members of Water User Associations against 80 percent contribution from the Bank credit operation. Beneficiaries deposited their contributions on a local bank account as a sign of their commitment prior to the start of irrigation works, unfortunately, the Bank failed to contribute due to the disbursement freeze.

43. Interviews with Country Team members for the CLR suggest that governance – the second central risk identified by the CAS – in particular the efforts to keep private and public business separate, was a major cause of the 2009 crisis. Yet, as the ISN noted “more vigilance may have been needed when the signs of governance deviations and the risks of conflict of interest were becoming increasingly apparent, eventually causing the crisis.” In retrospect it is clear that greater attention should have been paid to the need to develop strong institutions, transparent regulations and checks and balances to address the growing predominance and abuses of the Presidency in the run-up to the crisis. This conclusion is further underlined by the fact that the weakening governance environment was not reflected in Madagascar's CPIA rating which rose slightly each year until the political crisis in 2009. A key lesson then is that CAS implementation should include continuous and careful scrutiny of risks and risk mitigating factors. When risk-mitigating factors can be questioned, or when previously unidentified risks arise, the country team should actively discuss how to relate to new circumstances. Timely reviews of the Bank's strategic direction can help identify new risks. Similarly, timely portfolio reviews (CPPRs) will help identify structural weaknesses in the portfolio.

ISN Implementation

Key strengths: (a) response to political and natural risks; (b) substantial AAA program; (c) use of latest findings on fragility; (d) good supervision ratings.

Key weaknesses: (a) little usage and improvement of results framework inherited from the CAS; (b) no Satisfactory progress towards PDO ratings and nearly half of all projects rated Moderately Unsatisfactory.

44. The rating for ISN implementation is Fair. Implementation of the ISN successfully pursued an ambitious ASA program and actively used the latest findings on fragility to guide ISN implementation. But success of achievement was modest for a significant number of ISN Outcomes. The ISN for Madagascar was discussed by the World Bank Board on February 21, 2012 following a period of progress towards ending the political crisis. A draft Roadmap for an exit to the crisis was initialed on March 9, 2011 and representatives of all key political leaders (with the exception of President Ratsiraka) finally signed an amended Roadmap on September 16, 2011 in Antananarivo.

45. With the SADC Roadmap in place, the Bank took important steps to adapt its program to circumstances. The political crisis prompted a profound restructuring of the Bank's portfolio in Madagascar to revisit the Bank's approach, re-orient activities geographically, reach out and complement other projects, reallocate funds internally, and extend closing dates.⁴⁰ The restructuring included dropping or restructuring a number of projects carried over from the CAS cycle.

46. Six projects closed during the FY12-13 ISN. The Bank did a relatively good job in relation to supervision of its program during a period characterized by uncertainty and despite limited contacts with high-level Government officials. This is in part due to the continued use of PIUs, which played a crucial role in regards to project implementation under OP 7.30. One project had quality of supervision rated Satisfactory and five projects received Moderately Satisfactory supervision ratings. For the projects with a Moderately Satisfactory supervision rating, weak M&E frameworks contributed to the final supervision rating for the majority of projects. Besides, the Bank monitored closely the electoral process during the transition, with the objective of identifying and mitigating risks to projects' implementation.

47. The ICR for the Rural Development Support Project (P051922) touched on the challenges of operating in a highly political system and observed that: "...no M&E system would have survived the political pressure coming from the top, where the President himself had a personal interest in agriculture policy and frequently made personal policy changes." It is therefore valid to ask whether enough was done to ensure that projects were adequately designed to withstand political pressure.⁴¹

48. It is also worth noting that awareness of ISN and CAS Outcomes and indicators is low and project monitoring is often disconnected from CAS and ISN Outcomes. One lesson learned from this observation is the need for internal workshops around the Bank's strategic documents and the link between operations and strategic directions.

49. A substantial ASA program implemented under the ISN supplemented the profound portfolio restructuring. This has resulted in the dissemination of four ESWs under the following sectors and

⁴⁰ The following eleven projects were restructured: Rural Development Support Project (P051922), Irrigation and Watershed Management Project (P074086), Third Environment Program Support Project (P074235), Rural Transport Project (P073689), Emergency Food Security and Reconstruction Project (P113134), Madagascar Financial Services Project (P109607), Mineral Resources Governance Project (P076245), Integrated Growth Poles Project (P083351), Governance, Second Governance and Institutional Development Project (P103950), Communications Infrastructure Project 3 (P094103), Power and Water Sector Recovery and Restructuring Project (P095420).

⁴¹ Since the period with strong political pressure appears to be prior to the 2009 political crisis, this observation applies both to the ISN and CAS implementation period.

themes: Education, Health, Poverty, and Social Protection. All these works are of high quality. In addition to the four ESWs, a number of reports on Madagascar's Political Economy (PE) situation have been produced, but not disseminated publicly. The quality of this work is good, but does not entirely answer the challenge identified in the ISN, namely understanding the causes of Madagascar's crises. According to research, one organization has been involved in every political crisis since Madagascar's independence, namely the military. More could be done to understand the military's role in Madagascar, including how it is funded, and how the institution could be reformed. Another factor playing a decisive role in Madagascar's political system is the electoral model (i.e. a multiparty system with about 200 political parties). The Bank could discuss with Development Partners how they could take on a deeper analysis of the military structure and the electoral system, while the Bank focuses on its domain of expertise.

50. With regards to collaboration within the Bank Group, DPs, and Government, IFC expressed strong satisfaction with the collaboration with the Bank. IFC was supporting a strong program in finance, telecommunications, and advisory services but faced challenges too. During the crisis, they could not extend the work they had undertaken on investment climate, the SME program could not be extended and new investments could not be approved. During the ISN period, some openness had allowed to strengthen Bank and IFC collaboration to develop joint products to facilitate access to credit by SMEs, employment opportunities and risk management by financial institutions. This was carried out through the Partial Credit Guarantee Fund under the ACGF Financial Services project which has resulted in positive outcomes.

51. Government representatives expressed a desire to see greater synergy between Bank projects and projects from other Development Partners. There can be little doubt that improvements can be made within the Bank, but the Government's criticism also highlights the need to look at government capacity and ways to improve government leadership of Madagascar's development agenda. It should also be noted that the Bank team used the ISN to build a portfolio consisting of more cross-sectoral projects in order to promote synergies. Examples include the restructuring of the Second Governance and Institutional Project (2012) and the Emergency Support to Critical Education, Health and Nutrition Services Project (2012).

52. Development Partners' appreciation of the Bank was generally positive. DPs acknowledged the Bank's strong analytical capacity and ability to lead, but voiced frustration with the Bank's communication in relation to both sector activities and investments. The Bank could review its communication procedures to see where adjustments can be made. At the same time, it is important to recognize the Bank's unique access to sensitive information, which cannot always be shared with DPs.

Discussion of Key Lessons Learned

53. The review of the Madagascar CAS FY07-11 and ISN FY12-13 has yielded the following country and Bank-wide relevant lessons.

54. **In a crisis environment it is critical for the Bank to be realistic about what can be accomplished, especially when resolution to a political crisis is not in sight.** The political crisis from 2009 to 2011 strongly affected the FY07-13 CAS cycle, effectively ending the CAS program after less than two years and presenting the Bank with the challenge of balancing Donor Partners' demand for sanctions against the regime with mitigating the impact of reduced donor aid. The approach of sustaining engagement through the existing portfolio was much appreciated by Government technical staff and allowed projects to continue once the political crisis had been resolved. While project implementation and development of a new post-crisis pipeline was undoubtedly helped by preserving implementation capacity in this way, in the end there was only limited progress towards CAS and ISN Development Outcomes. Six out of the twelve projects which closed during the CAS cycle had Unsatisfactory ratings. At both the CAS and the project level the restructuring effort should have been more thorough, with

greater attention to adjusting project and program targets in line with implementation capacity and the impact of the crisis on the overall country environment.

55. A stronger understanding of the political economy environment is critical in fragile states. Madagascar's primary development challenge lies in addressing the country's cyclical breakdown of political/elite consensus. To reverse the negative spiral, Bank work under the ISN FY12-13 finds that a change must take place in Madagascar's elite bargain. This review highlights the crucial benefits of a better understanding of Madagascar's political economy dynamics and commends the Bank for the analytical work that was initiated under the ISN. At the same time, the review finds that the Bank can do more to understand the role of those institutions that have played a prominent role during periods of political instability in Madagascar since independence, notably the military. Other areas of relevance, not traditionally covered by the Bank, include the country's electoral system (e.g. law on funding of political parties in a multiparty framework). As the Bank cannot intervene in these areas, its prominent role to facilitate strategic discussions with Development Partners should be further developed so that key issues related to the military structure and the electoral system are addressed and be part of their strategic support to the country. A more traditional area of Bank work is land reform, which holds the key to empowerment of the poor through increasing access to finance (using land as a collateral) and making available an alternative means of saving and investment.

56. Flexible and cost-effective delivery modalities – such as community-driven approach – are crucial to sustain results on the ground in fragile states. Recurrence of political crisis in fragile states is very high and this should lead the Bank to continuously remain engaged in delivering social programs and poverty reduction programs by putting in place flexible and cost-effective delivery mechanisms that would generate quick results. While the political situation is fragile and the capacity of local systems to ensure accountability is weak, the new CPF should aim predominantly to anchor its work at the community level.

57. The next CPF should have a results framework that includes specific, measurable, and time-bound indicators, covers a limited number of Outcomes, and reviews strategic directions and portfolio performance in a timely way. This review finds that vague and non-quantifiable indicators challenge measuring progress during the CAS cycle. There is further too much duplication of outcomes and more prioritization could have gone into the selection of both Outcomes and indicators. Both the CAS and ISN results framework illustrate the need for more condensed frameworks with SMART indicators going forward. A stronger results framework will help the Bank team gauge progress towards country development outcome. However, the SMART results framework should be supplemented with timely reviews of both the Bank's strategic direction and country challenges through the new Performance and Learning Review tool and CPPRs. To strengthen M&E further, the Bank may want to consider using third party monitoring for high frequency and real time feedback on Bank activities and areas of relevance to Development Outcomes.

Annex 2.1: Achievement of CAS/ISN Objectives

ISN/CAS outcomes and indicators	Progress by ISN end date (2013)	Comments and lessons learned	WBG instruments
ISN Pillar 1: Governance and public sector capacity (MU)			
<p>1.1 Improved and broad understanding of Governance issues (Not Achieved)</p> <p>(i) PER provides framework for discussing improved management of public expenditures and outreach to the public for greater accountability <i>Baseline: PER (2011)</i></p> <p>(ii) GAP for better aid effectiveness and knowledge of governance issues in social sectors prepared and disseminated with Government and the public <i>Baseline: GAP 2007-2012</i></p>	<p>(i) General PER was prepared for the work program for FY14, then dropped. HD PER delivered FY15. (Not Achieved)</p> <p>(ii) GAP for the period FY14–FY17 delivered June 5, 2017. (Not Achieved)</p>	<p>Putting Governance in a separate pillar weakens the theme’s cross-sectoral properties. Instead of adding Governance to a specific Pillar, Governance should be incorporated across Outcomes and Pillars. Governance systems include taxation, budgets, HRM, FM, and integrity</p>	<ul style="list-style-type: none"> • Fourth Poverty Reduction Support Credit • Second Governance & Institutional Development Project (P103950) • Mineral Resources Governance Project (P076245)
<p>1.2 Improved public service delivery in pilot areas (Mostly Achieved)</p> <p>(i) 34 communes have started decentralization pilots through the local development fund (FDL) <i>Baseline: N/A</i></p> <p>(ii) Operational efficiency of 70 land tenure kiosk strengthened <i>Baseline: 0</i> <i>Target: 70</i></p>	<p>(i) 69 (August, 2012). (Achieved)</p> <p>(ii) 40. (Partially Achieved)</p>		
<p>1.3 Improved community participation in governance (Partially Achieved)</p> <p>(i) At least 2 mining communes have the capacity for participatory budgeting <i>Baseline: 1</i></p> <p>(ii) Community score cards (CSC) pilots in health and education, and ICT-based activities implemented to support access to information in 200 communes, in 4 selected regions <i>Baseline: 169 social accountability initiatives CSC pilots (2012)</i></p> <p>(iii) Support for the EITI initiative to go through the validation process <i>Baseline: Madagascar’s EITI implementation suspended due to political instability</i></p>	<p>(i) 9 (2015). (Achieved)</p> <p>(ii) 200 new CSC in 4 selected communes (Achieved)</p> <p>(iii) Suspension of Madagascar by EITI board was lifted in June 2014 (Not Achieved)</p>	<p>P103950 has supported Madagascar’s production of EITI reports in 2012 and 2013. Validation will commence by December 2016, though Madagascar may seek an earlier Validation if all EITI requirements have been met</p>	

ISN/CAS outcomes and indicators	Progress by ISN end date (2013)	Comments and lessons learned	WBG instruments
<p>REVISED AND PARTIALLY CONTINUED I.1. Improved governance in natural resource sectors (Not Achieved):</p> <p>(i) Issuance of licenses (mining, fishing, forestry) follows transparent rules according to anticorruption surveys and audits</p> <p>(ii) Establishment of a transparent mechanism for revenue tracking as a result of Madagascar joining the EITI</p>	<p>(i) Lists of permits and licenses not published and illegal logging surged during the CAS period. (Not Achieved)</p> <p>(ii) Madagascar became an EITI candidate country in 2008 and requested validation report extension twice but did not submit validation reports during the CAS period. (Not Achieved)</p>		
<p>I.2. Improved voice and accountability (Not Achieved):</p> <p>Improved voice and accountability as measured by WBI Governance indicators</p> <p>WBI Governance indicators (Not Achieved)</p> <p><i>Baseline: 36.06</i></p>	<p>25.82 (2011)</p>	<p>As a cross-sectoral theme, governance Outcomes should be incorporated across Outcomes and Pillars, not under separate Outcomes or Pillars as this undermines the cross-sectoral properties of Governance. See http://info.worldbank.org/governance/wgi/index.aspx#home for details on the WBI voice and accountability index and its source indicators</p>	
<p>REVISED AND PARTIALLY CONTINUED II.2. More efficient public expenditure management (Not Achieved):</p> <p>(i) Budget adequately reflects priorities of the government as measured by increase in expenditure allocation (in real terms of the budget) to priority sectors: education from 18.9% (2005); health from 7% (2005); nutrition from 2.17% (2005)</p> <p>(ii) Budget law implemented in a transparent manner (law and information on its execution is widely available to the public)</p>	<p>(i) Budget adequately reflects priorities of the government as measured by increases in expenditure allocation (in real terms of the budget) to priority sectors: education: (19.8%); health (4%); nutrition (Not Verified) (health expenditure includes nutrition). (Partially Achieved)</p> <p>(ii) Last audit report on the budget law approved by Parliament</p>		

ISN/CAS outcomes and indicators	Progress by ISN end date (2013)	Comments and lessons learned	WBG instruments
<p>(iii) Public procurement conforms better to established rules as measured by audits</p> <p>(iv) Streamlined expenditure management procedures are followed (as evidenced by audits)</p> <p>(v) Improved internal and external controls as measured by improvements in PEFA indicators (baseline assessment was carried out in 2006)</p>	<p>dates 2011. Information is not widely available. (Not Achieved)</p> <p>(iii) The percentage of reviewed procurement processes in selected public institutions that conform to the new procurement regulations increased to 80% (2010). (Achieved)</p> <p>(iv) Not Verified=Not Achieved</p> <p>(v) PEFA: effectiveness of internal controls for non-salary expenditure: C (2014). PEFA: scope, nature and follow-up of external audit: D+ (2014). (Not Achieved)</p>		
<p>REVISED AND PARTIALLY CONTINUED 2.3. Improved public service delivery (Partially Achieved):</p> <p>(i) Improved delivery of key public services (primary health, education, land titling) as measured by community scorecards or citizen report cards</p> <p>(ii) Increased public resources managed by communes from 3 to 7 %</p> <p>(iii) Sub-national governments operate according to clear legal and administrative framework</p>	<p>(i) Number of CSB (Basic health center) controlled by community scorecards: 26. (Achieved)</p> <p>(ii) Share of annual central budget transferred to local governments 1.9% (2010). (Achieved)</p> <p>(iii) Development budget for FDL legally created and operational for capital expenditures (June, 2007). Development budget for FDL pending for expenditures for goods and services (incl. salaries). (Not Achieved)</p>		
ISN Pillar 2: employment and competitiveness (U)			

ISN/CAS outcomes and indicators	Progress by ISN end date (2013)	Comments and lessons learned	WBG instruments
<p>2.1 Improved business environment (Partially Achieved)</p> <p>(i) PPP framework agreed with Government and private sector to promote private sector intervention in key sectors (agri-business, telecom, micro-finance, mining, ecotourism) <i>Baseline: Rio Tinto's investment in Madagascar in 2005 (for a 40-year mining concession) was the basis for a PPP for the construction of Ehoala Port</i></p> <p>(ii) New geological map for Madagascar available <i>Baseline: new geological map for Madagascar not available</i></p> <p>(iii) 500,000t of exports from Fort Dauphin Ehoala port by mid-2013 <i>Baseline: N/A</i></p> <p>(iv) Share of households with access to potable water in Nosy Be (Fort Dauphin was at 75% at start of ISN and is therefore dropped) <i>Baseline: 40% (2011)</i> <i>Target: 75%</i></p> <p>(v) Increase of the number of accounts at licensed financial institutions (bank and MFI) <i>Baseline: 726,000 (new baseline calculated)</i></p>	<p>(i) PPP workshop held (2014): no legal framework for PPP exists (Not Achieved)</p> <p>(ii) Map delivered (Achieved)</p> <p>(iii) 648,000t (Achieved)</p> <p>(iv) 63,960 of 87,335 = 59% (Partially Achieved)</p> <p>(v) 753,000 (2014). (Not Achieved)</p>	<p>Indicators (i) through (iv) are irrelevant to Outcome. Would have been relevant to look at speed of reforms relevant to the private sector, quality of power supply, and political stability</p>	<ul style="list-style-type: none"> • Regional Communications Infrastructure Project (P094103) • Integrated Growth Poles Project (P083351) • Rural Development Support Project (P051922) • Emergency Food Security and Reconstruction Project (P113134) • Madagascar Financial Services Project (P109607) • Rural Transport Project (P073689) • Irrigation and Watershed APL 1 (P074086) • Mineral Resources Governance Project (P076245) • Third Environment
<p>2.2 Improved support for productivity in Agriculture (Achieved)</p> <p>(i) 9,000 additional ha of rice under irrigation <i>Baseline: 0 ha</i></p> <p>(ii) 35,000 additional producers supported through 850 income-generating sub-projects <i>Baseline: 141</i></p>	<p>(i) 9000 ha (Achieved)</p> <p>(ii) 1,166 sub projects financed (Sep 2012). (Achieved)</p>	<p>Indicator (ii) could be merged with Outcome 2.1</p>	<ul style="list-style-type: none"> • Program Support Project (P074235) • Power and Water Sector Recovery

ISN/CAS outcomes and indicators	Progress by ISN end date (2013)	Comments and lessons learned	WBG instruments
2.3 Addressing emergency repairs and accessibility of transport network (Partially Achieved) Rural bridges rebuilt, emergency repairs on road/rail network <i>Baseline: N/A</i> <i>Target: 8</i>	Works on bridges launched but not finalized, roads rehabilitated (Partially Achieved)		and Restructuring Project (P095240)
2.4 Increased access to ICT services for poor communes (Achieved) Additional poor communes with communication and broadband access <i>Baseline: 51 (December 2012)</i> <i>Target: 100</i>	563 (December 2013). (Achieved)	Target is modest as cell phone towers provide for broadband access. A more relevant indicator would be price of cell phone data	
2.5 Improved knowledge and technical dialogue for future investments in the energy sector (Achieved) Feasibility studies for future hydro-power investment sites completed <i>Baseline: N/A</i>	Feasibility studies completed. (Achieved)		
REVISED AND PARTIALLY CONTINUED I.3 Improved business environment (Achieved) Sustained improvements in business creation, interface with tax and customs authorities, and import-export regulations as measured against 2005 ICA (ICA 2010 or later not available so measured by relative DBI ranking for starting a business, paying taxes, and trading across borders) <i>Baseline:</i> (i) Starting a business: 110/175=0.63 (ii) Paying taxes: 86/175=0.49 (iii) Trading across borders: 131/175=0.75	(i) Starting a business: 70/183=0.34 (Achieved) (ii) Paying taxes: 72/183=0.48 (Achieved) (iii) Trading across borders: 106/183=0.58 (Achieved)		
REVISED AND PARTIALLY CONTINUED I.4. Better economic outcomes in the “growth poles” areas (Mostly Achieved): (i) International tourist arrivals increased: Nosy Be: from 40,000 to 80,000; Fort Dauphin: from 13,000 to 30,000	(i) International tourist arrivals (Mostly Achieved): - Nosy Be: 62,786 (Sep 2011) - Fort Dauphin: 14,688 (Sep 2011)		

ISN/CAS outcomes and indicators	Progress by ISN end date (2013)	Comments and lessons learned	WBG instruments
(ii) Number of new tourism jobs created: Nosy Be: 4,000, Fort Dauphin: 1,500	(ii) New tourism jobs created (Mostly Achieved): - Nosy Be: 2,687 (Sep 2011) - Fort Dauphin: 1,694 (Dec 2010)		
REVISED AND PARTIALLY CONTINUED I.5. Improved access to finance (Not Achieved): (i) Achieve 25% increase in private sector credit/GDP and 150% increase in leasing operations (IFC & IDA) (ii) Increase number of beneficiaries of microfinance from 800,000 to 1 million (IFC & IDA) (iii) More efficient payment system as measured by reduced settlement times for “remote” instruments from 21-60 days to 5-10 days	(i) 11% private sector credit/GDP (Not Achieved) (ii) 836,375 (Not Achieved) (iii) Settlement time is 2-5 days (Achieved)		
REVISED AND PARTIALLY CONTINUED I.6. Increase competitiveness and diversification in agriculture (Not Achieved): (i) Competitive markets in inputs (fertilizer) as measured by increase in fertilizer use from 20,000 mt/year to 60,000 mt/year (ii) Improved rice yields in irrigated project areas (in mt/ha): Andapa from 2.0 to 3.5; Marovoay from 2.0 to 3.5; Lac Alaotra from 3.5 to 5; Itasy from 3.0 to 4.5 (iii) Increased diversification in irrigated project areas as measured by increased areas dedicated to crops other than rice (from 40% to 60%) (iv) Increased number of small farmers operating at international standards and able to supply and to partner with large agribusiness companies (IFC). Baseline will be established as part of IFC projects (v) Strengthened capacity of the Fisheries Administration as measured by an independent institutional audit (a baseline audit was carried out by PROFISH in 2006)	(i) Not Verified=Not Achieved (ii) 4.43 mt/ha (April 2015) (Achieved) (iii) N/A (iv) (Not Verified=Not Achieved) (v) No capacity building took place as the funds (from an IDF grant) were cancelled due to the 2009 crisis (Not Achieved)	<ul style="list-style-type: none"> Indicator (i) is poorly worded, as consumption should be for the project area, not for national consumption. The metric is not harmonized with WDI data, which uses kilograms per hectare of arable land. AI Data for indicator (ii) was only available for 2015, not the CAS end year (2011). While the ICR for P074086 calculates the rice yield for the four project areas under the project based on capital budget execution and yearly fertilizer use, this CLR questions the approach. First, capital budget execution in the first of a (planned) three phase Adaptable Program Loan (APL) over 15 years is unreliable as an 	

ISN/CAS outcomes and indicators	Progress by ISN end date (2013)	Comments and lessons learned	WBG instruments
		<p>indicator for yearly rice yields. Second, on fertilizer indicator, no agriculture-related operations funded by the Bank had used fertilizer as an indicator. Use of chemical fertilizer was not systematically promoted under Bank operations. Also, one agriculture project alone could not double the national consumption of fertilizer estimated at 30,000 mt per year.</p> <ul style="list-style-type: none"> • Due to the political crisis, IFC made no new investments in agriculture during the CAS period. The status of indicator (iv) is therefore Not Verified <p>Outcome could be merged with Outcome I.3</p>	
<p>REVISED AND PARTIALLY CONTINUED I.7. Improved accessibility and reliability of roads (Not Achieved):</p> <p>(i) Increase in sustainable rural access around Antananarivo and two selected secondary cities (1,550 km of additional enduring rural roads)</p> <p>(ii) Improved road maintenance: 750 km of roads maintained annually under long term output based contracts and annual allocation from the Road Maintenance Fund</p>	<p>(i) (Not Verified = Not Achieved)</p> <p>(ii) 422 km of additional rural roads in good and fair condition (Not Achieved)</p>		
<p>REVISED AND PARTIALLY CONTINUED I.8. More efficient and reliable railway operations along the corridor between the capital and Toamasina port (Partially Achieved):</p> <p>(i) Significant reduction of derailment on the Northern Railway as measured by train- hours lost because of derailment form 1900 in 2006 to 300 in 2011</p>	<p>(i) The railway has started to deteriorate especially on curvatures. There are thousands of curvatures on the Antananarivo Toamasina railway.</p>		

ISN/CAS outcomes and indicators	Progress by ISN end date (2013)	Comments and lessons learned	WBG instruments
(ii) Increased share of goods transported by rail on Northern Railway from 21% in 2006 to 32% in 2011	The railhead width has become thinner and increases the risk of derailment. (Not Achieved) (ii) 31% (Dec 2012) (Mostly Achieved)		
REVISED AND PARTIALLY CONTINUED I.10. Lower telecommunication costs and improved accessibility (Mostly Achieved): (i) Reduce price of international bandwidth from US\$8,000 today to below US\$2,500 in 2011 (ii) Increased number of connected localities by more than 50%	(i) US\$5,412 (Sep 2011). Indicator adjusted to price of wholesale international E1 (Partially Achieved) (ii) 51 (Achieved)		
REVISED AND PARTIALLY CONTINUED I.11. Improve efficiency of power supply (Not Achieved): (i) Reduction of electricity losses from 23.7% today to 19% in 2011 (ii) Improved electricity generation efficiency as measured by reduction in diesel generation over total generation from 31% today to 13% in 2011	(i) 30%. (Not Achieved) (ii) 22%. (Partially Achieved)	<ul style="list-style-type: none"> • Outcome and indicators do not match. Outcome is about power <i>supply</i> efficiency, but indicators measure power <i>generation</i> efficiency • Indicators measure efficiency of power generation • Outcome could be merged with Outcome I.3 	
ISN Pillar 3: vulnerability and resilience (MU)			
3.1 Continued protection of the environment (Partially Achieved) (i) Continued protection of 32 national parks (ii) US\$2.5 million generated from parks entrance fees and carbon finance (iii) Households benefitted from social safeguard activities by mid-2013 <i>Baseline: N/A</i> <i>Target: 26,000</i> 58.	(i) National efforts to protect the parks exist, but poaching of hardwood and fauna and artisanal mining continues in Madagascar's National Parks. (Partially Achieved) (ii) US\$2,341,491 generated. (Mostly Achieved) (iii) 8,034 households (Sep 2014). (Not Achieved)	Indicator (i) is unclear and should be quantified	<ul style="list-style-type: none"> • Second Multisectoral HIV/AIDS Prevention Project (P090615) • Third Environment Program Support Project (P074235) • Emergency Food Security and
3.2 Improved protection of the vulnerable (Partially Achieved) (i) Poverty Assessment Report publicly disseminated and providing			

ISN/CAS outcomes and indicators	Progress by ISN end date (2013)	Comments and lessons learned	WBG instruments
<p>better understanding of poverty and inequality determinants and options <i>Baseline: N/A</i></p> <p>(ii) Safety Net Report publicly disseminated and providing basis for Social Protection system <i>Baseline: N/A</i></p> <p>(iii) Employment created in cash for work program between November 2009 and July 2013 <i>Baseline: N/A</i> <i>Target: 7.8m person-days of employment created</i></p>	<p>(i) Poverty assessment report available (2014). (Not Achieved)</p> <p>(ii) Assessment on vulnerability and social policies and prospects for the future published (2014). (Not Achieved)</p> <p>(iii) 9.94m workdays created. (Achieved)</p>		<p>Reconstruction Project (P113134)</p> <ul style="list-style-type: none"> • Second Multisectoral HIV/AIDS Prevention Project (P090615) • Emergency Support to Critical Education, Health, and Nutrition Services Project (P131945) • Emergency Support to Education For all Project (P132616)
<p>3.3 Improved preparedness to deal with natural disasters (Achieved)</p> <p>Risk-reduction measures and cyclone-proof housing construction norms adopted in vulnerable communities <i>Baseline: N/A</i></p>	<p>Climate proof standard for traditional housing 2013 developed under PUPIRV (Achieved)</p>	<p>Outcome relates to vulnerability and could be merged with ISN Outcome 3.2</p>	
<p>3.4 Improved monitoring of education sector performance (Not Achieved)</p> <p>Tools to monitor changes in the number of out-of schools and targeting mechanisms adopted and implemented <i>Baseline: no uniform monitoring system in place</i></p>	<p>Tools to monitor changes in the number of out-of-schools are still under development, but targeting mechanisms from the demand and supply side to address out-of-school issues have been adopted and are under imminent implementation (2015-2016). (Not Achieved)</p>		
<p>3.5 Improved mother and child health services and HIV prevention (Mostly Achieved)</p> <p>(i) Pregnant women tested positive and treated for syphilis during prenatal consultations in project areas <i>Baseline: 179</i> <i>Target: 1,124</i></p> <p>(ii) Women receiving antenatal care during a visit to a health provider in project areas <i>Baseline: 14,000</i> <i>Target: 37,500</i></p> <p>(iii) Children immunized in project areas</p>	<p>(i) 1,750 (Achieved)</p> <p>(ii) 112,251 (Achieved)</p> <p>(iii) 102,615 (Achieved)</p>	<p>Outcome relates to vulnerability and could be merged with ISN Outcome 3.2</p>	

ISN/CAS outcomes and indicators	Progress by ISN end date (2013)	Comments and lessons learned	WBG instruments
<p><i>Baseline: 52,800</i> <i>Target: 67,000</i> Target population reporting the use of condom in their last act of sexual intercourse with a non-regular partner in the last 12 months</p> <p>(iv) Commercial sex workers <i>Baseline: 84.8%</i> <i>Target: 87%</i></p> <p>(v) Military <i>Baseline: 63.6%</i> <i>Target: 72%</i></p> <p>(vi) Youth male <i>Baseline: 40.4%</i> <i>Target: 46%</i></p> <p>(vii) Youth female <i>Baseline: 43.8%</i> <i>Target: 48%</i></p>	<p>(iv) 85% (Not Achieved)</p> <p>(v) 70% (Mostly Achieved)</p> <p>(vi) 58.8% (Achieved)</p> <p>(vii) 52.7% (Achieved)</p>		
<p>3.6 Improved nutrition for children under two years of age in target areas (Achieved) 35,800 children 0-24 months obtaining monthly adequate minimum weight in project areas <i>Baseline: 34,000</i> <i>Target: 35,800</i></p>	<p>49,327 (Achieved)</p>	<p>Outcome relates to vulnerability and could be merged with ISN Outcome 3.2. A more appropriate indicator for reduced underweight malnutrition is stunting. This indicator has not changed for the last decade.</p>	
<p>REVISED AND PARTIALLY CONTINUED 1.12. Better management of environment (Partially Achieved):</p> <p>(i) 6,000,000 ha established under System of Protected Areas of Madagascar up from 3,850,000 ha today</p> <p>(ii) More transparent and competitive forestry concession and control system functioning (as measured by regular publication of lists of permits with amounts and revenues to the state)</p> <p>(iii) Better integration of environmental issues in the design of investment projects as illustrated by the fact that environmental impact assessments are applied to certain types of both private and public investment</p> <p>(iv) Forest and bush fires reduced as measured by reduction in</p>	<p>(i) 5,155,632 ha. (Partially Achieved)</p> <p>(ii) No lists of permits published. In addition, the sector faces big transparency and good governance issues. (Not Achieved)</p> <p>(iii) Environmental impact assessments are generally carried out. (Mostly Achieved)</p>		

ISN/CAS outcomes and indicators	Progress by ISN end date (2013)	Comments and lessons learned	WBG instruments
<p>surface of annually burned areas from 680,000 ha to 200,000 ha by 2011</p> <p>(v) 40% increase in eco-tourist visits in National Parks (IFC)</p> <p>(vi) Improved protection of priority marine areas as a result of their establishment as part of the System of Protected Areas</p>	<p>(iv) Pressure on protected areas increased (measured by the number of bushfires detected). (Not Achieved)</p> <p>(v) 34.4% increase from 118,400 (2007) to 159,129 (2011). (Mostly Achieved)</p> <p>(vi) Decree for protection of priority marine areas only published in 2015, but three temporary decrees were published in 2008 covering the protected areas. (Partially Achieved)</p>		
<p>I.13 REVISED AND CONTINUED Better preparedness to deal with natural disasters (Partially Achieved)</p> <p>Climate-proof standards followed in areas covered by Bank projects</p> <p><i>Baseline: N/A</i></p>	<p>Law on cyclone proof standards for buildings passed (2008). Law on climate-proof standards (cyclone + flooding) under preparation. Climate proof standards became part of the Bank's safeguards under the ISN</p>		
<p>REVISED AND PARTIALLY CONTINUED II.5. More effective delivery of health services (Not Achieved):</p> <p>(i) Increased utilization of primary health care (baseline: 0.41 contact/inhabitant/year in 2006) and first level referral (baseline: 40.8% in 2006)</p> <p>(ii) Increased availability of essential drugs as measured by the Ministry of Health administrative data and surveys</p> <p>(iii) Decreased incidence of malaria (baseline: people coming to the health centers with a diagnosis of malaria confirmed with a biological test— 29.3% in November 2006)</p> <p>(iv) Decreased hospital mortality rate from 4% for the first referral level and 5.3% for the second referral level (2005)</p>	<p>(i) (Not Verified = Not Achieved)</p> <p>(ii) Increased availability of essential drugs (Mostly Achieved)</p> <p>Cloroquine/ACT: 99% (Achieved)</p> <p>FAF: 88.3% (Not Achieved)</p> <p>Cotrimoxazole: 96.7% (Achieved)</p> <p>Paracetamol: 96.6% (Achieved)</p> <p>Vitamin A: 95.3% (Achieved)</p> <p>(iii) (Not Verified = Not Achieved)</p> <p>(iv) (Not Verified = Not Achieved)</p>		
<p>REVISED AND PARTIALLY CONTINUED II.6. Incidence of</p>			

ISN/CAS outcomes and indicators	Progress by ISN end date (2013)	Comments and lessons learned	WBG instruments
<p>HIV/AIDS and sexually transmitted infections kept under control (Partially Achieved): Increased number of commercial sex workers reporting use of a condom in their last act of sexual intercourse with a client from 76% to 90%</p>	85% (2012). (Partially Achieved)		
<p>ACHIEVED II.7. Reduced underweight malnutrition: Malnutrition among children under 5 years reduced from 35% to 30%* Through the Nutrition II Project (P001568), underweight was reduced by 30% among children under three years of age in project areas, from 50.9% (DHS 1998) to 20% in 2011. At the same time, the project reports that in 2011, 45% mothers are using identified practices to improve the quality and quantity of food provided to children under three (over a 20% baseline provided by the DHS 1998).</p>	30% (2011). (Achieved)	The Outcome and indicator are identical. A more appropriate indicator for reduced underweight malnutrition is stunting. This indicator has not changed for the last decade	

Annex 2.2: Selected Portfolio Indicators

PDO achievement ratings for projects closing during or after the CAS cycle

Project name	Project number	Effectiveness – Closing date	PDO achievement rating
Poverty Reduction Support Credit Series (4)	P099420	Aug 07 - Jul 09	U
Sustainable Health System Development Project	P103606	Aug 07 - Dec 09	S
Second Private Sector Development Project	P072160	Nov 02 - Dec 10	MU
Mineral Resources Governance Project	P076245	Sep 03 - Jun 12	MS
Transport Infrastructure Investment Project	P082806	Mar 04 - Jun 12	MS
Rural Development Support Project	P051922	Sep 01 - Dec 12	MS
Rural Transport Project	P073689	Mar 03 - Dec 12	MU
Southwest Indian Ocean Fisheries Project	P072202	Apr 08 - Mar 13	MS
Power and Water Sector Recovery and Restructuring Project	P095240	Oct 06 - Jun 13	MU
Second Governance and Institutional Development Project	P103950	Oct 08 - Aug 14	MU
Integrated Growth Poles Project	P083351	Sep 05 - Dec 14	MS
Irrigation and Watershed Management Project	P074086	Apr 07 - Dec 14	MU

ICR supervision ratings for projects closed during CAS implementation

Project	Project number	Period	ICR supervision rating	Total budget (US\$)
Second Private Sector Development Project	P072160	2002-2010	MU	23m
Poverty Reduction Support Credit Series	P099420	2007-2009	MU	50m
Sustainable Health System Development Project	P103606	2007-2009	S	10m

ICR Supervision ratings for projects closed during ISN implementation

Project	Project number	Period	ICR supervision rating	Total budget
Rural Development Support Project	P051922	2001-2012	S	\$119.05m
Rural Transport Project	P073689	2003-2012	MS	\$80m
Mineral Resources Governance Project	P076245	2003-2012	MS	\$40m
Transport Infrastructure Investment Project	P082806	2004-2012	MS	\$166m
Power & Water Sec. Recovery & Restruc. Project	P095240	2006-2013	MS	\$10m
Emergency Food Sec. & Reconstruction Project	P113134	2009-2013	MS	\$40m

Projects dropped during the CAS cycle FY07-13

Project Title	Project ID	Commitment amount US\$	Status
Transport Project	P102135	80.0m	Dropped
Commune Development Support Program	P104049	35.0m	Dropped
Joint Health Sector Support Program	P106675	45.0m	Dropped
Education for Growth	P111120	40.0m	Dropped
Skills Development Project	P057383	4.8m	Dropped
Farmer Ownership Model Project	P065928	1.4m	Dropped
Cultural Heritage Project	P067058	4.8m	Dropped
Energy Services Delivery Project	P074659	50.0m	Dropped

Annex 3: IDA Turnaround Monitoring Framework (FY16-FY18)

Turnaround priorities	Milestone/indicators	Timeline for FY16-FY18	Update March 2017	Key Partners
Set up other democratic institutions per the Roadmap	<ul style="list-style-type: none"> Establishment of the Senate Establishment of the High Court of Justice Announce 2018 parliamentary and presidential elections 	<p>Elections Dec. 2015</p> <p>2nd semester 2016 (delayed)</p> <p>Early 2018</p>	<p>Senatorial elections took place in late December 2015. Senate held regular sessions in May and October 2016.</p> <p>Its full establishment is awaiting the designation of the Permanent representatives of the High Council for the Defense of Democracy and Rule of Law (HCDDDED) by the President. The Senate has already designated its members. The High Court of Justice does not have a budgetary line in the 2017 Budget Law.</p> <p>The Independent National Commission for Elections has been established. It is undertaking consultations on the revision of the legal framework for elections and its calendar.</p>	UNDP, African Union
Advance the process of national reconciliation	<ul style="list-style-type: none"> Establish a new Commission for National Reconciliation Determine potential and establish a compensation fund for victims 	<p>1st semester 2016</p> <p>1st semester 2017 and beyond</p>	The National Assembly and the Senate adopted the new law on National Reconciliation in late 2016 following consultations in all 22 regions. The law foresees the creation of 3 commissions, including one on compensation. Application decrees are under preparation.	SADC and South Africa
Reform the security sector	<ul style="list-style-type: none"> Regional and national consultations to form consensus on the reform of the security sector Elaboration and adoption of a Policy Letter on the Reform of the Security Sector <p>Indicators:</p> <ul style="list-style-type: none"> Number of red zones” (in the South) that have local administrative and/or security offices Reduction in the number of raids by 	<p>1st semester 2016</p> <p>2nd semester 2016</p> <p>Annual data</p> <p>Annual data</p>	<p>The Policy Letter on the Reform of the Security Sector was adopted in April 2016, following consultations in all 22 regions. Operational plans have been developed (late 2016) and are under review by the Prime Minister’s office.</p> <p>8 red zones. Government established the special unity “anti-dahalo” in Betroka, with 60 gendarmes in June 2016. Two new security offices will be created in two other red zones within three years from now. No official numbers on the reduction of raids by dahalos but qualitative appreciations demonstrate</p>	<p>African Union, UNDP, UN Peace-Building Fund (PBF), EU</p> <p>PBF (has been operational since 2016 Q3)</p> <p>PBF</p>

Turnaround priorities	Milestone/indicators	Timeline for FY16-FY18	Update March 2017	Key Partners
	dahalo gangs in the Southern region		that raids have decreased. Data on theft of zebus: 217 in January 2017.	
Promote decentralization	<ul style="list-style-type: none"> Complete the evaluation of national decentralization and deconcentration strategy Develop and implement the new national decentralization strategy and action plan <p>Indicators:</p> <ul style="list-style-type: none"> Increasing percentage of communes with a Local Governance Index higher than 6 Improved recovery revenue by local governments 	<p>March 2016</p> <p>December 2016 (delayed)</p> <p>From 3 percent today to at least 25 percent in FY18 Baseline: below 30 percent; target: 40 percent in FY18</p>	<p>White Paper on decentralization was prepared with UNDP support. The draft action plan has been submitted to Financial and Technical Partners for their review. Draft will be discussed by Council of Ministers. Ongoing discussions with National Assembly and Senate on next steps.</p> <p>IDA-funded project on Public Sector Performance is collecting the baseline data for the Local Governance Index.</p>	EU, AfDB, UNDP, WB
Fight against rent capture (e.g. land and extractives) and trafficking economy	<ul style="list-style-type: none"> Develop and implement a five-year National Land Management Program Finalize audit of illicit rosewood stocks and centralize those stocks Submit action plan on precious wood trafficking to CITES Submit to Council of Ministers new mining and petroleum codes after stakeholder consultations <p>Indicators:</p> <ul style="list-style-type: none"> No sliding back in international transparency indicators (TI and Mo Ibrahim's) 	<p>By end 2016</p> <p>1st semester 2016</p> <p>2nd semester 2016</p> <p>1st semester 2016 (delayed to 1st semester 2017)</p> <p>Continuous until 2018 Baseline TI indicator: 123 out of 168 countries (2015)</p>	<p>The new Land Tenure Program (2016-2020) was enacted by the Council of Government in January 2017. Implementation of the program would require a programmatic approach.</p> <p>The audit of seized stocks has been completed (but quality has not been assessed) and the stocks have been secured (but not centralized). Action plan submitted to CITES in December 2016. It is awaiting review.</p> <p>The draft mining and petroleum codes, including fiscal dimensions, are well advanced. The Government is holding another round of consultations. They have not been submitted yet to the Council or the Parliament as planned. Expected submission in the June 2017 session.</p> <p>TI (2016): 145 out of 176 countries. Score has decreased from 26/100 (2016) to 28/100 (2015). Mo Ibrahim indicator has improved: score 48.5 (2016) vs. 46.7 (2014)</p>	<p>WB, AfD, EU, GIZ</p> <p>WB</p> <p>WB</p>

Turnaround priorities	Milestone/indicators	Timeline for FY16-FY18	Update March 2017	Key Partners
Strengthen checks-and-balances (civil society, media)	<ul style="list-style-type: none"> • Elaboration of a governance strategy • Submission of Freedom of Information Act to Parliament Indicator: <ul style="list-style-type: none"> • High office holders file asset declarations with the Independent Anti-corruption Bureau 	<p>1st semester 2016</p> <p>2nd semester 2016</p> <p>Continuous</p>	<p>Governance strategy has been developed and approved. Discussions on mechanisms to strengthen the judicial process are ongoing.</p> <p>The draft Freedom of Information Act has not progressed. Instead, the Parliament has adopted a new Code of Communications (Oct. 2016). This Code does not cover all the elements of an Access to Information Act.</p> <p>3154 out of 8000 filled the asset declarations.</p>	UNDP, EU, US, WB
Maintain macroeconomic stability	<ul style="list-style-type: none"> • Compliance with 6-month Staff Monitored Program • Conclusion of a three-year ECF program Indicators <ul style="list-style-type: none"> • Respect of the 3-year ECF objectives 	<p>March 2016</p> <p>2nd semester 2016</p> <p>July 2016-June 2019</p>	<p>SMP program was complied with. Matrix of reforms for a three-year ECF was agreed upon in May 2016. IMF Board approved ECF program in July 2016.</p> <p>Initial review undertaken in March 2017. Confirmed positive trends.</p>	IMF
Increase revenue mobilization	<ul style="list-style-type: none"> • Implementation of risk-based auditing by customs based on better data gathering (e.g., mirror data) • Cross-sharing of data between tax and customs administrations to undertake audits Indicators: <ul style="list-style-type: none"> • Improved tax payer registration (single identifier) • Increased tax revenue collection 	<p>End 2015 (continuous)</p> <p>1st semester 2016 (continuous)</p> <p>Baseline 200,000; target 500,000 by FY18 Baseline at 10 percent of GDP; target of 11 percent in FY18</p>	<p>Reform of the customs administration is moving forward at a steady pace. Greater coordination at reconciling customs and tax data have led to several tax audits. Both customs and tax have met their revenue target under the SMP and then ECF programs.</p> <p>IDA-funded project will track those data. Tax payer registration: 254,584 (Dec 2016)</p> <p>End of FY16 performance: 11 percent of GDP</p>	IMF, WB

Turnaround priorities	Milestone/indicators	Timeline for FY16-FY18	Update March 2017	Key Partners
Implement priority PFM reforms	<ul style="list-style-type: none"> • Preparation of annual consolidated accounts and their audit by the Accounting Agency (Cour des Comptes) • Budget reports issued by the Cour des Comptes for 2009-2013 <p>Indicators:</p> <ul style="list-style-type: none"> • Publication of monthly budget execution report by Treasury on its website • Improved timeliness of service-delivery fiscal transfers 	<p>Continuous</p> <p>December 2015 and then continuous</p> <p>December 2015 and then continuous</p> <p>Standard developed and integrated in the 2018 Budget Law</p>	<p>Budget reports for years 2001-2014 have been issued in 2016. Financial statements are presented to the Cour des Comptes within 15 months following the end of the fiscal year. 2015 accounts and reports should be on time for the Parliamentary session of May-June 2017 and thus in compliance with local legislation.</p> <p>Monthly budget execution is on the Ministry of Finance website up to November 2016.</p> <p>Timeliness of service delivery fiscal transfer: delays of at least 12 months. Some transfers from 2015 and 2016 were not completed, even though mandated by the Treasury.</p>	WB
Tighten management of SOEs	<ul style="list-style-type: none"> • Preparation and adoption of a performance improvement plan for Jirama • Outline a least-cost development strategy for energy sector • Preparation of a business strategy for AirMad <p>Indicators:</p> <ul style="list-style-type: none"> • Publication of monthly statistics on delivery of diesel and generation of power 	<p>January 2016</p> <p>March 2016 (delayed)</p> <p>March 2016</p> <p>December 2015 and then continuous (data reliability issue being corrected)</p>	<p>The performance plan has been adopted. Management is being replaced through competitive process. Business Plan to reduce costs and increase revenues is under preparation and has to be submitted to IMF for conclusion of first ECF review. The Least Cost Power Development Plan is still under preparation due to delays by contractor. It is expected to be completed by May 2017.</p> <p>The business strategy for AirMad has been prepared. A partner (Air Austral) has been identified through a competitive process. Negotiations are ongoing.</p> <p>JIRAMA has published on its website the required data for the period Jan 2016 to March 2017</p>	<p>WB</p> <p>WB</p> <p>WB</p> <p>WB</p>

Annex 4: SCD Recommendations

Constraint		Impact on poverty goal			Time horizon of impacts			Contribution to reducing fragility			Evidence base			Political capital required		
		small	medium	large	short	medium	long	low	medium	high	weak	medium	strong	low	medium	high
Governance	1. Understand the dynamic of degradation of law and order and reverse the trend by strengthening relevant entities; adopt decisive measures to stop trafficking of precious woods as a signal to end impunity and promote better local livelihood	Medium			Medium			High			Weak			medium		
	2. Improve the center-periphery relations through decentralization (e.g. implementation of the existing law) and greater community engagement in economic and social processes	Medium			Long			High			Medium			High		
	3. Weaken the elite bargain by cultivating counter-powers (e.g., civil society, media, national assembly), empowering them with access to information, and protecting press freedom	Small			Long			High			Medium			High		
Public Finance	4. Increase tax revenues by tackling the underlying causes of low collection	Large			Short			High			Strong			High		
	5. Establish or re-institute budget oversight mechanisms to create greater accountability and better performance on the expenditure side	Medium			Medium			Medium			Strong			High		
	6. Finalize PPP framework to engage the private sector in the financing of infrastructure and service delivery	Small			Medium			Low			Medium			Low		
Private sector	7. Provide priority complementary public investments in areas propitious for private sector development and job creation (e.g. seeking partnerships in air transport to unleash tourism potential)	Large			Medium			Medium			Medium			Low		
	8. Identify and prioritize policy reforms through the new public-private dialogue platform to improve investment climate and promote FDI, to enhance the performance of the judicial sector, and to address anti-competitive behaviors and enhance firms' corporate governance	Medium			Short			Medium			Strong			Low		
	9. Address the main constraints identified by the private sector: reliable access to electricity, broader access to finance, and expanded transport infrastructure. Where relevant, improve governance and performance of state-owned enterprises	Large			Long			Medium			Strong			High		

Constraint		Impact on poverty goal			Time horizon of impacts			Contribution to reducing fragility			Evidence base			Political capital required		
		small	medium	large	short	medium	long	low	medium	high	weak	medium	strong	low	medium	high
<i>Human capital</i> <i>Human development</i>	10. Support the poorest in accessing education, basic health, and nutrition through the development and implementation of a social protection policy (such as conditional cash transfer programs)	Medium			Short			Medium			Strong			Low		
	11. Improve the quality and equity of education by investing in pre- and in-service training for all teachers, improving the distribution of teachers across the country, and gradually integrating trained community teachers in the system, while maintaining local accountability mechanisms	Medium			Long			Low			Strong			Low		
	12. Prioritize and invest in first-level rural health facilities, train and distribute health personnel across the country, and remove out-of-pocket costs at facility levels, particularly for poorest communities	Medium			Long			Low			Strong			Low		
	13. Renew focus on nutrition and scale up interventions that tackle stunting	Medium			Long			Low			Strong			Low		
	14. Implement policies and increase investment to improve water and sanitation, starting in large urban areas	Medium			Long			Medium			Low			Low		
<i>Rural poverty</i>	15. Improve agricultural productivity through the introduction of more productive methods, support for local organizations, financing for better farm-level and road infrastructure, enhanced land security, and higher human capital	Large			Medium			Medium			Medium			Low		
	16. Enhance management of natural resources, by improving the mechanisms through which communities benefit from it, adopting a landscape approach that integrates mechanisms for better watershed and forest management, and strengthening the capacity for law enforcement	Medium			Long			High			Medium			Medium		
	17. Institute mechanisms for protecting the poor from weather-related shocks through mitigation and prevention measures and disaster response financing mechanisms	Medium			Long			Low			Medium			Low		

Annex 5: Summary of the National and Regional Consultations

1. Consultations were held with the Borrower and with Development Partners in the capital Antananarivo in March 2017. In April 2017, four regional consultations were conducted in Toamasina, Toliary, Taolagnaro, and Antsiranana. The audience was composed of representatives of sectoral ministries, local authorities, civil society and the private sector.
2. These consultations have endorsed the strategic objectives of the CPF and have called for more support of the World Bank to address a number of issues related to governance. Combatting corruption would require the establishment of a convincing system that would consequently address persistent issues, such as the country's low absorptive capacity, deep centralization of powers, and inefficient investments.
3. Effective decentralization should be promoted by strengthening the cooperation between the central government and local administration. Strong cooperation would be determined by the availability of information at their disposal, the ability for local administration to submit their own sectoral policies that respond to their regional needs to the central decision-makers with appropriate budget and technical support available, and the freedom to provide critical opinions on any strategic decisions without fearing reprisal from the central administration. This will require a fundamental change in the mindset and ways of operating of the central and local administration.
4. Strengthening of key stakeholders, such as the private sector and civil society is paramount to sustain economic growth and to build up social accountability. The Government should continue promoting public private partnerships, build the needed infrastructure in the energy and transport sectors to accompany private initiatives and should partner with Parliamentarians and the civil society to ensure that good governance is effective.
5. Finally, key potential sectors that deserve the greatest attention are road infrastructure to unlock agricultural potential, fisheries, tourism, renewable energies, and the development of human capital, precisely the education sector to prepare future leaders.

Annex 6: Mapping of Development Partners' Activities

	Focus Area 1: Increase Resilience & Reduce Fragility				Focus Area 2: Promote Inclusive Growth			
	1. Early Years development	2. Rural Resilience (incl. natural Resources Mgmt)	3. Decentralization	4. Transparency & Accountability	5. Fiscal Management	6. Business Environment	7. Rural Productivity	8. Priority Infrastructure
AFD		X	X	X	X	X	X	X
AFDB	X	X			X	X	X	X
EU	X	X		X	X		X	X
FAO	X	X				X	X	
FIDA	X	X					X	
GIZ		X	X	X			X	X
JICA	X	X		X			X	X
Norway	X						X	
ONUDI		X						X
Switzerland	X	X	X			X		
UNCDF						X		
UNDP		X	X	X	X		X	
UNFPA	X			X	X			
UNICEF	X	X						
USAID	X	X		X	X		X	
WFP	X	X						
WHO	X							

Annex 7: Operations Portfolio (IBRD/IDA and Grants)

Active Projects								
Project ID	Project Name	Last PSR Supervision Rating		Fiscal Year	Original Amount in US\$ Millions			
		Development Objectives	Implementation Progress		IDA	Grants	Undisb.	
P147514	Emergency Food Security & Social Prot.	MS	MS	2014	65.0		24.0	
P157909	GEF Sustainable Landscape Management	#	#	2017	0.0	13.7	0.0	
P113971	Integrated Poles and Corridor Project 2	S	S	2015	50.0		24.6	
P151469	MG-Agriculture Growth & Land Management	S	S	2016	53.0		48.6	
P132101	MG-Emerg Infra Preservation & Vulnerabil	S	S	2013	102.0		11.3	
P131945	MG-Emerg Supp to Critical Ed, Health, Nu	S	S	2013	75.0		0.8	
P151785	MG-ESOGIP	S	S	2016	65.0		57.2	
P160866	MG- Public Finance Sustainability and in	#	#	2017	65.0		0.0	
P150116	MG-Public Sector Performance	MS	MU	2016	40.0		38.1	
P149323	MG-Social Safety Net Project	S	S	2016	75.0		50.8	
P160071	MG Statistical Capacity Building	#	#	2017	30.0		30.5	
P154698	Sustainable Landscape Management	#	#	2017	65.0		65.9	
Overall Result					685.0	13.7	351.7	

Annex 8: IFC Committed and Disbursed Outstanding Investment Portfolio

As of 03/31/2017

(In USD Millions)

FY Approval	Company	Committed					Disbursed Outstanding				
		Loan	Equity	**Quasi Equity	*GT/RM	Participant	Loan	Equity	**Quasi Equity	*GT/RM	Participant
FY07	ABM	0.00	0.32	0.00	0.00	0.00	0.00	0.32	0.00	0.00	0.00
FY11	ABM	0.00	0.18	0.00	0.00	0.00	0.00	0.18	0.00	0.00	0.00
FY12	ABM	0.00	0.54	0.00	0.00	0.00	0.00	0.54	0.00	0.00	0.00
FY04	BP MADAGASCAR	0.00	3.40	0.00	0.00	0.00	0.00	2.27	0.00	0.00	0.00
FY07	MC MADAGASCAR	0.00	0.49	0.00	0.00	0.00	0.00	0.49	0.00	0.00	0.00
FY16	SMTM MADAGASCAR	1.52	0.00	0.00	0.00	0.00	0.77	0.00	0.00	0.00	0.00
FY17	SMTM MADAGASCAR	0.00	0.00	0.00	0.15	0.00	0.00	0.00	0.00	0.08	0.00
Total Portfolio:		1.52	4.93	0.00	0.15	0.00	0.77	3.80	0.00	0.08	0.00

Annex 9: Selected Indicators* of World Bank Portfolio Performance and Management

Indicator	FY14	FY15	FY16	FY17
Portfolio Assessment				
Number of Projects Under Implementation ^a	8.0	6.0	9.0	11.0
Average Implementation Period (years) ^b	6.0	3.1	1.4	1.8
Percent of Problem Projects by Number ^{a,c}	25.0	16.7	11.1	9.1
Percent of Problem Projects by Amount ^{a,c}	20.7	19.5	11.9	5.7
Percent of Projects at Risk by Number ^{a,d}	37.5	33.3	11.1	9.1
Percent of Projects at Risk by Amount ^{a,d}	31.7	43.8	11.9	5.7
Disbursement Ratio (%) ^e	35.3	32.7	37.2	26.3
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				
<hr/>				
Memorandum Item	Since FY80	Last Five FYs		
Proj Eval by OED by Number	96	9		
Proj Eval by OED by Amt (US\$ millions)	3,372.6	597.5		
% of OED Projects Rated U or HU by Number	42.7	55.6		
% of OED Projects Rated U or HU by Amt	37.8	38.9		

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the World Bank's country portfolio.

c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the World Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex 10: Map of Madagascar

