

PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: AB2298

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| Operation Name | Madagascar Third Poverty Reduction Strategy Credit |
| Region | AFRICA |
| Sector | Governance (Public Sector Management, Customs, Justice); Education; Nutrition; Health; Rural water supply |
| Project ID | P096102 |
| Borrower(s) | REPUBLIC OF MADAGASCAR |
| Implementing Agency | Ministry of Economy, Finance and Budget (MEFB) |
| Date PID Prepared | April 4, 2006 |
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| Estimated Date of Board Approval | July 13, 2006 |

1. Key development issues and rationale for Bank involvement

In 2005 Madagascar continued to make satisfactory progress in implementing its poverty reduction strategy, despite another difficult year marked by exogenous shocks. Madagascar has continued to maintain its focus on implementing its poverty reduction strategy, with good results evident particularly in the implementation of the roads program, Education for All, nutrition, and health. However, adding to an already difficult 2004 with two devastating cyclones, in 2005 Madagascar suffered from the increase of world petroleum prices and the financial crisis of the electric parastatal JIRAMA which has had a disruptive effect on economic activity as production was negatively affected by the ensuing power cuts and subsequent tariff increases. The Government has responded to this situation and has put in place a recovery plan for JIRAMA that is now being implemented. Inflation has slowed considerably to 11.8 percent from a rate of 27 percent in 2004 and the price of rice has started to decline since March 2005 and has now stabilized. Measures to enhance exchange rate stability and secure an adequate level of international reserves were also successful in ensuring greater stability of the market-determined exchange rate.

GDP growth in 2005 is estimated to be at 4.6 percent compared to 5.3 percent recorded in 2004. The main sources of growth for 2005 have been the agricultural sector, particularly with higher rice production, tourism and public investment programs. Growth projections forecast an average growth rate of 6.6 percent over the 2006-2010 period. After having reached the Heavily Indebted Poor Country (HIPC) Initiative Completion Point in October 2004, Madagascar will now benefit from the G8 multilateral debt relief initiative, with significant debt relief and improved prospects to maintain sustainable debt levels in the medium term. Madagascar is also a recipient of the Millennium Challenge Account (the first country to become eligible).

The main sources of growth include tourism, mining, construction and, most important for the poor, improved growth prospects in agriculture. The EPZ sector is not expected to grow due to the impact of the expiration of the Multi Fiber Agreement. Tourism and related activities are expected to grow further given the planned private investment in hotels and the increasing number of tourists. In mining, the recently approved ilmenite mining project financed by Rio Tinto in the Fort Dauphin region is under implementation.

Implementation of the PRSP is proceeding well. The first Annual PRSP Progress Report was prepared in June 2004, along with a PRSP update which incorporated the Government's vision up to 2015, *Madagascar Naturellement*, and the annual results framework (*La Politique Générale de l'Etat*). The Government is preparing its Progress Reports on a calendar year basis now to correspond to the budget cycle with a mid-year report on implementation in July to inform the budget preparation for the following year. Subsequently the Government has prepared its first semester implementation report for the first six months of 2005, and is in the process of finalizing its 2005 calendar year report, after a series of workshops in all the provinces. Government has also initiated the process of elaboration of its next poverty reduction strategy, called Madagascar Action Plan, and plans to present it to Parliament in the fall along with the 2007 Budget.

Based on the data available to date, the Government's strategy is delivering results. The Government is using its budget in line with its strategic priorities – roads and education command large shares. These resources are being translated into results on the ground. More children are in school today than ever before (over 90 percent), and a larger percentage are likely to complete primary school. With the implementation of the roads program in rural areas, the percentage of the rural population with reliable access to transport has increased from 45 percent in 2003 to 52 percent in 2004. The condition of the main road network has also improved; in 2004 and 2005. Rice productivity has increased in the last two years and is now 2.57 tons/hectare. Access to safe drinking water in rural areas has also improved. Immunization rates have remained stable and more women give birth in health centers than before. Infant and child mortality rates have declined significantly between 1997 and 2003/04.

2. Proposed objective(s)

In line with the Bank's Country Assistance Strategy for Madagascar, a series of single tranche Poverty Reduction Support Credits (PRSCs), provided in the form of budget support, is envisaged to support implementation of two of the three main axes of the PRSP. PRSC 1 and PRSC 2, approved on July 20, 2004 and July 12, 2005 respectively supported the strategic axes of good governance and promoting human development. PRSC 3 will consolidate the reforms started under the first two PRSCs. It will continue to focus on public expenditure management and anti-corruption reforms as well as support reforms for improved service delivery in education, health, nutrition and rural water supply. Strengthening monitoring and evaluation will also remain central for an enhanced accountability and results focus.

3. Preliminary description

PRSC 3 supports the strategic axis of governance, aimed at consolidating and deepening reforms commencing with PRSC 1 and PRSC 2. This includes assistance to the Government in continuing to implement its 2005 Priority Action Plan for public expenditure management reforms, and developing and implementing its 2006 Priority Action Plan. These reforms include continuing improvement in the alignment of the 2006 budget to the priorities of the PRSP, the reform of the Treasury, the installation of a transitional integrated financial management system, taking steps to make the new procurement code operational, and the preparation of draft budget execution laws (*Projet de loi de règlement*). Following the operationalization of the Anti-Corruption Agency (BIANCO), PRSC 3 also deepens support for the Government's anti-corruption agenda. The operation also supports the implementation of a reform program for customs.

PRSC 3 also consolidates our support for the strategic axis of providing human and material security, by supporting the development and implementation of the Government's Education for All Agenda, service delivery in nutrition, health and rural water supply. A very large increase in enrolments have been supported by key policy reforms which have included a continued increase in the share of the education budget, continued measures to decrease education costs for poor households starting with the school year 2002/2003 (suppression of school fees, provision of learning materials to all primary students), actions to increase access for poor students (through school construction, salary compensation for teachers paid by parents, teacher recruitment) and reinforcement of management capacity at central and decentralized levels. PRSC 3 continues to support policy and institutional reform in the nutrition sector, following the establishment of the National Council for Nutrition and the establishment of the its secretariat (Office National de Nutrition). In rural water, PRSC 3 supports the implementation of the water and sanitation strategy for all, at the regional level. In health, following the national policy on health and the development of a Medium Term Expenditure Framework, the credit supports improvements in sector budgeting and financing as well as improved access and quality of service delivery. A supporting Technical Assistance Credit (Good Governance and Institutional Development) approved in November 2003 is assisting the government in putting in place the systems to strengthen budget management, and finance technical assistance and capacity building needs.

4. Environment Aspects

In accordance with Bank guidelines, this operation is a development policy credit in support of a broad program of policy and institutional reforms, for which the requirements of OP/BP 8.60 apply. The PRSC 3 program does not pose any significant environmental impacts.

5. Tentative financing

The proposed credit amount would be a US\$ 40 million equivalent. The credit would be disbursed in one tranche at effectiveness subject to the fulfillment of the prior actions conditions listed in the Policy Matrix.

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| Source: | (\$m.) |
| BORROWER/RECIPIENT | 0 |
| INTERNATIONAL DEVELOPMENT ASSOCIATION | 40 |
| Total | 40 |

6. Contact point

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