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INTERIM STRATEGY NOTE

FOR

THE REPUBLIC OF MADAGASCAR

FOR THE PERIOD FY12-FY13

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ABBREVIATIONS AND ACRONYMS

AAA	Analytic and Advisory Activities
AFD	*Agence Française de Développement*
AfDB	African Development Bank
AU	African Union
CAS	Country Assistance Strategy
CPIA	Country Policy and Institutional Assessment
EDBM	Economic Development Board of Madagascar
EITI	Extractive Industries Transparency Initiative
ESW	Economic and Sector Work
EU	European Union
GDP	Gross Domestic Product
GFDRR	Global Facility for Disaster Reconstruction and Recovery
GPE	Global Partnership for Education (previously FTI)
HAT	High Authority of Transition
HIPC	Heavily Indebted Poor Countries
IFC	International Finance Corporation
IFI	International Finance Institutions
IMF	International Monetary Fund
INSTAT	*Institut National de Statistique*
ISN	Interim Strategy Note
MAP	*Madagascar Action Plan*
MDG	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
PER	Public Expenditure Review
OIF	*Organisation Internationale de la Francophonie*
PIU	Project Implementation Unit
PRS	Poverty Reduction Strategy
PPP	Public Private Partnership
SADC	Southern Africa Development Community
SME	Small and Medium Enterprises
UNDP	United Nations Development Program
WDR	World Development Report

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INTERIM STRATEGY NOTE
FOR MADAGASCAR

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I. EXECUTIVE SUMMARY

1. This Interim Strategy Note (ISN) comes at a time of great uncertainty concerning the present and future situation of Madagascar in political, social and economic terms. The previous Country Assistance Strategy (CAS) (2007-2011) expired in July 2011, but for all practical purposes it has been inoperative since the unconstitutional change of regime in early 2009 and the ensuing political crisis. The country is not in a position to justify preparation of a new full CAS given the absence of a normal dialogue with an internationally recognized Government and limitations on Bank's lending after the application of OP/BP 7.30 (dealing with *de facto* Governments).

2. The crisis situation has been impervious to international mediation effort and is only recently making some progress while exacting a heavy toll on one of the poorest populations in the world. Almost three years into the crisis with most aid suspended, Madagascar is progressively sliding into greater fragility with dramatic increases in poverty levels and worrisome deterioration in the overall governance environment. In health, education and food security, the state of affairs is already close to an emergency situation as the public service delivery system is at risk of paralysis and humanitarian aid bypassing public institutions is showing its limitations. Infrastructure is in an alarming state of disrepair. The attainment of the Millennium Development Goals (MDG) has become an increasingly remote target. Moreover, exogenous shocks (financial crisis, world food or fuel prices) and extreme climatic events (cyclones, droughts) to which Madagascar is prone, ignore political signals while further increasing vulnerability of the poor in the context of a Government which is left with very little capacity to respond.

3. Given the uncertain environment in Madagascar, an ISN is considered to be the appropriate instrument for the Bank to reexamine its strategic posture and guide its course of action during this continued period of uncertainty, even in or perhaps because of, the absence of a clear government strategy. Given the current challenges which the country is facing, this ISN requires some flexibility in view of the importance that the evolving political situation has on the resumption of normal relations with the Government.

4. As the crisis endures, the ISN tries to build on recent lessons from the 2011 World Development Report (WDR) on Conflict, Security and Development which recommends more focus on fragility prevention and the need to remain engaged even in situations of political instability and weak governance. The international community is increasingly confronted with the dilemma of avoiding that Madagascar falls into fragility status and that a poor population is kept hostage to a political crisis while working in the context of a non-recognized government. The ISN tries to strike a balance between the importance of not undermining political mediation efforts while addressing the increasing costs of inaction that would mortgage future gains in development outcomes in light of disbanding delivery systems and eroding rule of law.

5. The ISN proposes the following approach: (i) it strives to remain focused on the most pressing short term issues affecting the country, while keeping a medium term view on the key strategic pillars of governance, employment and vulnerability to prepare the ground for re-engagement; (ii) it proposes to use the existing portfolio more strategically through a

restructuring effort that would improve project performance to achieve greater impact in areas of urgent needs through reallocation of existing funds; (iii) it recommends to pursue an analytical effort that would raise public awareness about the cost of the crisis and update the knowledge base in priority areas on which to reengage when conditions permit; (iv) it promotes enhanced partnership with other donors as well as civil society and the private sector to maximize the impact of existing interventions and approaches; and (v) it provides a very cautious, strategic and selective approach to new lending so as to address emergency situations in social sectors and to deal with major external shocks or humanitarian crises as they may occur.

II. COUNTRY CONTEXT

A. Political Developments

6. **Since February 2009, Madagascar has been in the throes of a political crisis**. The turmoil was generated by the change of power caused by street movement and army dissent under the leadership of Andry Rajoelina (at that time the mayor of the capital city Antananarivo) against President Marc Ravalomanana, forced into exile in March 2009. Andry Rajoelina took the title of President of the High Authority of the Transition (HAT). This unconstitutional access to power was rejected by the international community.

7. Crisis mediation efforts by the African Union (AU), the Southern African Development Community (SADC), the United Nations (UN) and the *Organisation Internationale de la Francophonie* (OIF) initially focused on reaching an agreement between the current de facto President and the three ex-Presidents Ravalomanana, Ratsiraka and Zafy, on the establishment of an inclusive transitional government and a timetable for elections. **A power-sharing deal was eventually reached on August 9, 2009 in Maputo, Mozambique, but failed to be implemented as the deal was dismissed by the HAT**. This led to sanctions by the AU including travel bans and assets seizure for a number of individuals of the *de facto* Government.

8. **After a period of hiatus, mediation resumed through an initiative of the Malagasy civil society that led to the organization of a National Conference and to the adoption of a new Constitution by referendum in November 2010**. Opposition leaders continued to denounce the unilateralism and lack of inclusiveness of the process as the HAT was able to consolidate its position in power and secure the management of the transition process. Signs of dissent have been recurrent within the army until an attempted coup was foiled in November 2010 and the situation brought back under control. Support to the mediation process was resumed by the SADC mediator, in an effort to foster a new political agreement, a more inclusive transition Government and elections. After months of intense negotiations, a draft roadmap for an exit to the crisis was initialed on March 9, 2011 by a number of political parties participating in the mediation and a new Government was formed which saw the re-appointment of the same Prime Minister. However, the three former Presidents that signed the Maputo agreement rejected the legitimacy of the Government and called for the revision of the roadmap which in their view was too favorable to the HAT and would prevent ex-President Ravalomanana from contesting elections.

9. **The SADC pursued attempts to reach a more inclusive adoption of the roadmap through a series of summits.** As recommended by the SADC Heads of State at their meeting in

South Africa in June 2011, an amended roadmap including the unconditional return of ex-President Ravalomanana was finally signed by the representatives of all key political leaders (with the exception of ex-President Ratsiraka) in Antananarivo on September 16, 2011. However, the return of ex-President Ravalomanana is still in doubt, as the HAT issued an order of arrest in case he returns. A new Prime Minister was eventually appointed and a new Government formed on November 21, 2011, under the auspices of the SADC Troika. Opposition leaders rejected the legitimacy of the Government despite the inclusion of their representatives, arguing that it is biased in favor of the HAT which keeps control of the "strategic" Ministries. A new Parliament was appointed on December 2, 2011, and the restructuring of the Independent Electoral Commission (CENI) is now underway. The AU, at its meeting of December 8, 2011, noted the positive developments but conditioned the lifting of sanctions on further evidence to be provided by the SADC of satisfactory implementation of the roadmap including on the article that deals with the return of ex-President Ravalomanana, and agreement on an electoral calendar.

10. **It is not clear how the situation will possibly unfold**. The default scenario that is adopted as "base case" for the purpose of the ISN, is the continuation of the current transition process leading to elections albeit with persistent doubts about the inclusiveness of the various institutions (with or without a possible return of ex-President Ravalomanana), and with the risk that it may not gather sufficient credibility to command full international recognition. Two other scenarios are possible, though less likely, at the two extremes of the spectrum: (i) full implementation of the road-map, including the establishment of the Transition's institutions, paving the way for inclusive, credible and fair elections and garnering sufficient international recognition for the resumption of aid programs; or (ii) a deterioration of the security situation which may lead to new unrest and street movement. Presidential elections are not likely to take place before October 2012.

B. Governance

11. **While Madagascar has shown a considerable potential for growth, recurrent political crises have each time wiped out years of achievements and set the development clock back.** In an effort to better understand the causes underpinning the crises, the Bank has embarked in a major analytical effort to study the political economy of governance in Madagascar, including detailed case studies applied to mining and forestry (completed) as well as health and education (under way). Many analysts agree that political crises in Madagascar are essentially crises of governance and accountability whose origins go back to the way society is organized. A complex web of family networks with ramifications into politics, government, private sector, the army and the church, have formed over time and influence decision making while generating conflicts of interest. Private sector elites are closely intertwined with political elites and are the dominant driver of Madagascar's political economy. New political allegiances have regularly formed to topple successive governments in a context of increased presidential power. Elite bargaining over economic rents and using office for giving preference to selected companies typically alienate the interest of other economic elites which could cause defection and turmoil, contributing to the instability underpinning the political crises.

12. **The weakness of institutions and governance deviances has over time developed a neo-patrimonial rent-seeking system where decisions are taken for the benefit of some rather than for the country as a whole**. Non-competitive political and economic institutions

which are subservient to the elites are among the key challenges to effective governance. The Madagascar democracy is less marked by institutions that are more powerful than individuals, than a complex system of personal relationships founded on loyalty as much as sovereignty, where laws are molded around the leader's personal needs. Favor-trading will eventually generate exclusion as the system gives a premium to personal relations over merits, and will ultimately undermine institutional performance and development effectiveness. Exclusion can be further compounded by the long-standing ethnic divide between the *Merina* (high-lands) and the *Cotiers* (coastal areas) that continues to be prominent in Malagasy politics. Successive governments have tried to bridge the ethnic division by balancing their composition but in a neo-patrimonial regime citizens are often loyal to their ethnic groups or clans rather than the State. However, contrary to the 2002 crisis, inter-ethnic tension is not a major factor in the current crisis which is mostly seen as an inter-*Merina* conflict.

13. **Mechanisms to ensure accountability, such as Parliament, the Judiciary and other oversight institutions have largely been co-opted by the Presidency**. Excessive concentration of political power at the center and mostly in the Presidency has prevented the normal functioning of checks and balances. More transparency and better monitoring of budget preparation and execution would improve efficiency on priority setting and actual service delivery systems. Similarly, social accountability tools that would promote citizens' demand for better governance are still in their infancy. Also, there is not a sufficient level of decentralization that would allow locally elected officials to play their role and be seen as accountable for delivering services. Even in a context of good legal and policy frameworks, the selective application of the rules and the chance of corruption are likely to reinforce the level of impunity.

14. **Support for future reforms will ultimately have to come from changing political networks in power**. The analysis suggests that the nature of the crisis is deeper and more structural and difficult to be resolved by the presence or absence of individual personalities on the political stage. Eventually Madagascar may require a new elite bargain to resolve the crisis and not just a return to "constitutionality". Elite support for reform is difficult to assess as it may put the distribution of rents at risk. In a context of much reduced aid flows and austerity measures, the search for rents may become even stronger. This is fraught with risks in a country that is rich in natural resources, as evidenced by the recent surge in illegal logging of rosewood or by the lack of transparency in the allocation of mining permits and concessions. Madagascar needs to build stronger and more autonomous institutions. Initiatives such as BIANCO (the anticorruption agency) and the Extractive Industry Transparency Initiative (EITI) are welcome but either they have not been able to keep grand corruption in check or have only received lukewarm support by the Government. Whether Madagascar will be able to avoid the "natural resources curse" remains an open question, but it will require better tackling of the underlying issues of governance and accountability.

15. **Madagascar currently is not listed as a country in conflict, nor as a fragile state (see para. 16).** However, the situation of pervasive political crisis is not only deteriorating the social and economic condition of the population, but is eroding the basis of the rule of law and raising the level of fragility. The justice system is perceived as being highly corrupt. Criminality is on the increase, both in urban and in rural areas and violence could become a way for the population to express its resentment in the face of increased adversity and inequality. Also, the US Government has recently downgraded Madagascar to tier 3 for not complying with minimum

standards on human trafficking. This could expose Madagascar to certain sanctions including US opposition to assistance from the International Monetary Fund (IMF) and the World Bank. While State functionality is being undermined and technical capacity is overall modest, many public administrations have shown strength and resilience in carrying out their tasks with competence and dedication. Also, the population has shown great resilience and cohesion in developing coping mechanisms that are now being stretched to their limits as the socio-economic situation continues to degrade. In Madagascar the importance of the message and of the example coming from the top will remain paramount in setting the country back on the right governance path.

16. **The political crisis exacts a heavy toll on governance indicators.** During the period between the two crises of 2002 and 2009 most governance indicators were improving and Madagascar was doing better than the African average on most accounts. A sharp deterioration occurred in 2008 and rapidly worsened during the ongoing crisis. Over three years (2008 to 2011) Madagascar lost 15 positions (from rank 85 to 100 in the world) on Transparency International's Corruption Perception Index with a mark of 3 over 10. Similarly, the Bank's Country Policy and Institutional Assessment index (CPIA) went from 3.7 in 2008 to 3.4 in 2010 with the indicator on Transparency, Accountability and Corruption in the Public Sector going from 3.5 to 2.5 over the same period. This reflects a sharp deterioration of the country performance that had negative consequences on Madagascar's IDA16 allocation. A country is defined as fragile if the World Bank and the African Development Bank (AfDB) composite CPIA rating is of 3.2 or less.

C. Economic Developments

17. **Madagascar has showed chronic political instability and declining economic trends over the past few decades.** In the 1960s, the country was among the better off African countries, with an educated elite, strong institutions, good infrastructure, and an income per capita above the developing country average. It lost this position after several decades of economic mismanagement, a socialist experiment (1975-1991) and economic disruption from political crises with loss of Gross Domestic Product (GDP) of 6.3 percent in 1991, 12.4 percent in 2002 and 3.7 percent in 2009. From the 1970s until the second half of the 1990s, annual GDP growth averaged only 0.5 percent compared to a population growth of about 2.8 percent. With such lackluster economic performance, Madagascar has made no dent on poverty over the last 20 years.

18. **Between 2002 and 2008, Madagascar embarked on an ambitious transformation path that brought gradual improvements in social, economic and governance indicators**. The economy grew at an average of 5 percent per year, and poverty declined to 69 percent in 2008 from its peak of 80 percent in 2002. But governance continued to be weak, and social indicators were still low by international standards as the country continued to be ranked at the bottom of the UN Human Development Indicators (UNHDI). Magnifying these challenges, significant and persistent deficits in physical and human capital continued to place enormous demands on the government and the economy.

19. **The impact of the current crisis differs from the one of 2002 and from the one of other African nations.** Since early 2009, the political crisis has led to a decline in economic growth, at the beginning exacerbated by the negative impact of the global financial turmoil on

export-oriented activities. GDP growth turned to be negative by about 4 percent in 2009 but yet weakly rebounded in 2010 (with an estimated growth slightly above 0 percent). The impact on growth is not as severe as during the 2002 crisis (-12 percent) or as reported in Côte d'Ivoire (projected -7.5 percent in 2011) or Zimbabwe (-10 percent in 2003). Also, contrary to Guinea, prudent fiscal and monetary policies have helped to keep the macroeconomic framework under control, with reasonable fiscal and external balances, and relatively stable financial indicators. The inflation rate remained around 10 percent on annual basis and the exchange rate is stable. Foreign reserves have remained stable at about US$1 billion, or about four months of imports. The stock of Madagascar external debt burden at US$1.2 billion or 12 percent of GDP is low as the country had benefited from a Heavily Indebted Poor Countries (HIPC) debt reduction agreement in 2007. Madagascar remains current in its debt obligations towards the Bank and other International Finance Institutions (IFIs). The effect of the crisis on the economy is perhaps not as visible but it remains extremely perverse. GDP contraction in per capita terms is around 7 to 8 percent and contributes to increased fragility and to a dramatic impact on poverty and social distress (see below). Good macroeconomic performance came at a hefty cost with drastic budget cuts and a crumbling public service delivery system, which puts its sustainability into question.

Table 1: Selected Macroeconomic indicators, 2007-2013

	Actual				*Projected*		
	2007	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
Growth rates (%)							
Real GDP	6.2	7.1	-3.7	0.5	*1.0*	*2.5*	*5.0*
Exports (volume)	13.7	-3.3	-7.2	8.7	*8.5*	*32.5*	*16.6*
Imports (volume)	29.3	35.8	-29.7	-18.7	*12.3*	*1.3*	*5.1*
Inflation (GDP deflator) in %	9.6	9.2	8.3	9.2	*10.3*	*8.5*	*5.8*
National accounts (% GDP)							
Current account balance	-14.5	-21.4	-21.1	-8.2	*-8.6*	*-8.2*	*-8.2*
Gross Domestic Investment	29.6	44.2	31.7	18.8	*25.0*	*24.7*	*25.9*
Public finance (% GDP)							
Fiscal balance	-2.9	-1.1	-2.8	-0.4	*-1.3*	*-2.3*	*-2.8*
Foreign financing	2.2	3.0	0.7	0.4	*0.0*	*0.2*	*0.2*
International reserves (as months of imports)	2.8	2.6	2.9	3.8	*3.5*	*3.5*	*3.1*

Source: World Bank/IMF

20. **Public investments are dependent on the resumption of aid but private activities have shown resilience**. A large fraction of official aid, which represents 40 percent of the budget and 75 percent of the public investment program, remains on hold, leading to significant cuts in investments, a decline in the delivery of social services and further deterioration of growth prospects. Economic recovery will continue to be associated with the resolution of the political crisis and Government recognition by the international community. However, aid-flow will take time before recovering to its pre-crisis level. Private sector investments and activities have generally shown resilience to the crisis even if this came through a rebound of the informal sector due to resurgence of illegal trade and coping strategies. Foreign Direct Investments (FDI),

of which the extractive industries represent 80 percent of the total, has declined by 15 percent between 2008 and 2010, with the compounding effect of the international financial crisis.

21. **The political crisis had marked differentiated impacts across sectors.** The primary sector has been resilient with good rice harvests in 2009 and 2010 (Madagascar typically imports about 5-10 percent of its needs) and the mining sector production jumping significantly thanks to the *Rio Tinto* project (ilmenite extraction) that started its production in mid-2009. The *Sherritt* mining investment (nickel/cobalt) - the largest in the country - should come into production in the first quarter of 2012. Most activities linked to public sector funding (such as construction) have been in disarray. Exports have fallen by 50 percent between 2008 and 2010 but they are now recovering thanks to tourism and export-oriented enterprises under the Free Trade Zones (FTZ) regime which have generally performed better than others. Also, Madagascar is faced with the challenge of preserving its unique and globally significant biodiversity, which is a major source of revenue from ecotourism and potentially from carbon finance. Madagascar's exposure to cyclone and droughts has proven to be highly deleterious to economic development (the 2008 cyclone season caused damages equivalent to 4 percent of GDP) and will need proactive disaster risk management, particularly as related to climate change trends.

22. **Madagascar consistently underperforms in almost all global benchmarks on competitiveness and business environment.** The country continues to rank poorly on the ease of doing business indicator (137/183 in Doing Business 2011), knowledge economy (120/145 in 2009) and economic competitiveness (124/139 for 2010-11). However, it is worth noting that Madagascar made significant progress in trade logistics efficiency and moved up to 88 out of 155 countries in 2010. The Africa Competitiveness Report 2011 reports that the top five constraints for doing business in Madagascar are (in order of ranking): government instability/coups, policy instability, corruption, access to finance, and crime and theft. Expensive and unreliable electricity, land regulation and access to land, uncompetitive practices, and governance challenges are also key constraints perceived by firms as highlighted in various studies. Under the pressures of the political crisis, business activities have slowed down. Small and medium enterprises are the most affected. The cost of doing business is unfavorable for entrepreneurs, which has spawned a large informal sector. More than 30,000 workers were laid off from textile and garment firms when Madagascar lost eligibility to African Growth and Opportunity Act (AGOA) preferential access in January 2010. As a result, most of them have joined the workforce in the informal sector. At the same time the privatization and liberalization agenda remains unfinished. The Government controls or has stakes in key productive sectors such as energy, telecom, agro-industries, and air transport.

23. **The infrastructure situation is alarming**. Investment needs are disproportionate compared to budgetary resources. Being an island, the connectivity of the transport sector (ports, rail, roads and air) is of paramount importance. Between 2003 and 2008 important investments had started to address Madagascar's infrastructure gap, but since the crisis, the suspension of foreign aid and severe budget cuts have left the transport network in a state of disrepair with ever-growing maintenance backlog. Damages from successive cyclones are left unattended rapidly increasing the cost of future interventions and causing serious road safety issues. Institutional reforms are also in jeopardy: the Road Authority and the Road Fund have seen their autonomy undermined and are cash-strapped, while the "*Ports à Gestion Autonome*" reform,

which aims at promoting the participation of the private sector in the management of the main ports, is paralyzed. At the same time the truckers' lobby is weighing heavily on the Government to avoid the axle load legislation, causing accelerated deterioration of the roads network and also competing unfairly with the Northern Railways System, privately operated. Air transport is also in dire straits as Air Madagascar is confronted with severe management and financial issues.

24. **Access to electricity is extremely low despite the potential.** With energy access lower than 20 percent, the majority of Malagasy still live in the dark. The number of subscribers of JIRAMA, the national utility, has not changed since 2004. Despite the hydro-power potential (the fourth in Africa), Madagascar is very dependent on thermal energy whose cost has drastically increased with petroleum international prices. The plans to open up JIRAMA to private management have been put on hold, and the company suffers from financial losses and arrears with the State. Access to electricity has been mentioned as the number one issue by the private enterprises in the 2004 and 2008 Investment Climate Assessment (ICA). Yet, the energy sector is one of the most neglected by donors financing which is largely attributable to institutional weaknesses and the absence of a coherent sector development strategy.

D. Poverty and the Social Impact of the Crisis

25. **According to all criteria used by international development agencies, Madagascar appears as one of the poorest countries in the world**. Income per capita barely reaches US$400 according to the World Bank Atlas methodology. Above 3/4 of households live under the poverty threshold and the country ranks 143rd in the world according to the United Nations' Human Development Index.

26. **The current political crisis has increased poverty levels by 9 percent between 2005 and 2010, reaching 77 percent of households, the highest rate in Africa according to the World Development Indicators (WDI), 2011**. The high level of poverty is not only a problem of social equity in Madagascar but it also contributes to slowing down economic growth. Households are not equal in front of the poverty challenge. On one side there are wide differences among regions (from 57 to 77 percent) and between rural areas (74 percent) and urban areas (52 percent). In addition, income differences between the rich and the poor are large, especially in urban centers where the ratio between the highest and the lowest income groups may top 10. The *Gini* coefficient in urban areas is higher than in rural areas by 20 percent.

27. **Poor households are generally characterized by minimal education, high propensity to self-employment and under-employment, limited access to basic social services and high exposure to external shocks and natural disaster risks**. Poverty is persistent because whatever small economic income gains have been achieved during a short growth period, they have been threatened by political crises, notably in urban areas where formal job losses have been estimated at 300,000. Also, the poor redistribution of the benefits of growth in rural areas is further constrained by poor productivity in the agricultural sector. Extreme poverty is strongly correlated with the absence of basic services especially water and electricity as well as family size. Finally, poor households are disproportionally vulnerable to recurrent natural disasters to which Madagascar is prone (cyclones, floods, droughts and locust infestations). The eastern coast,

where more than a third of the population lives, is exposed every year to cyclones while the south – the poorest part of the country -- is affected by recurrent droughts.

28. **The impact of the crisis in the health/nutrition sector is pervasive and is reversing over a decade of progress in improving the well being of the population**. The public health service delivery system is increasingly under threat with dwindling supply of basic services and vaccines, and increased fragmentation of scarce donor resources through the use of parallel service delivery systems. *SALAMA*, the public drugs procurement center is regularly at risk of disruption of supply which is having an impact on key health indicators such as immunization coverage. Between 2008 and 2010-11 the following trends have been observed: (i) the Government reduced the budget covering operational costs of health centers by 30 percent; (ii) the prescription satisfaction rate, a key indicator for drug availability, has sharply declined from 69 percent to 58.9 percent at facility level; (iii) the utilization rate of Basic Health Centers has decreased by 20 percent; and (iv) prenatal consultations rate in Basic Health Centers went from 74 percent to 62 percent. The lack of human and financial resources has caused the closure of 339 primary health care facilities out of 2,500. These closings are expected to continue which means that access to health services by poor people and vulnerable population (pregnant women and children under 5) is considerably curtailed. In addition, the nutrition status of the population is alarming with an increased rate of acute malnutrition from 4.7 percent in 2008 to 7.4 percent in 2011 in some areas. The stunting rate among children below 3 years of age was 46 percent in 2009 which implies that over 1.2 million children suffer from chronic malnutrition. This is only likely to get worse with the closing of the Bank-financed nutrition program which was the main source of complementary support to the national program.

29. **The impact of the crisis in the education sector is particularly high and may put future generations at risk**. Recent data shows an increase by 53 percent in the number of out-of-school children between 2008 and 2010 to reach almost 400,000. Gross and net enrollment rates are also decreasing. Public expenditures on education as a share of GDP decreased from 3.6 percent in 2008 to 2.6 in 2010 or a 30 percent reduction in constant 2010 prices. This has translated into an increasing share of education costs being borne by poor families (for example, as much as two-thirds of primary school teachers are now hired by communities) which is quickly becoming unsustainable and is leading to an increasing number of drop-outs. The Global Partnership for Education (previously FTI) for the Education For All program has relieved some of the burden on parents, however this assistance will come to an end in June 2012. The ensuing gap will pose an immediate threat to the 2012/13 primary school year in the absence of complementary funding. The withdrawal of external support to the sector will jeopardize the primary education system with 5.3 million children at risk of dropping out or receiving sub-optimal education. Such degradation of the education system and the human capital asset poses enormous challenges not only for poverty reduction, but also for future economic growth.

30. **Under the current circumstances, the chances that Madagascar would achieve most of the MDGs by 2015 are slim.** The gaps are particularly wide in the areas of poverty reduction, primary school enrollment and completion, and maternal health (see Table 2). In the health/nutrition and in the education sector, the state of affairs is already close to an emergency situation. Not only are the poorest bearing the brunt of the political crisis and suspension of aid but the cost of re-engagement will be considerably higher once the delivery system has

disbanded. Similarly, safety net programs are inadequate to maintain a minimum level of income support, employment or food complements for children. The severity of the situation was denounced by the UN Special Rapporteur on the right to food in July 2011, who alerted that 68 percent of the population in the South of the country is food insecure and that Madagascar has one of the highest levels of child malnutrition in the world. He questioned the usefulness of sanctions and aid suspension by donors which seem to disproportionally penalize a poor population rather than the regime itself.

Table 2: The Road to the Millennium Development Goals

		Baseline	Most recent	Target 2015	Likeli hood
MDG1	**HALVE THE RATES OF EXTREME POVERTY**				
Poverty rate(% households under poverty line)		68.7 (2005)	77 (2010)	35	no
MDG2	**ENSURE THAT CHILDREN ARE ABLE TO COMPLETE PRIMARY SCHOOL**				
Net enrollment ratio in primary education (%)		83 (2006)	73.4 (2010)	100	no
Primary education completion (%)		57 (2006)	64.5 (2009)	100	no
MDG3	**ELIMINATE GENDER DISPARITY**				
Ratio of girls to boys in primary and secondary education		96 (2006)	97 (2009)	100	Possibly
Proportion of seats held by women in national parliament		7 (2006)	7 (2008)	50	no
MDG4	**REDUCE UNDER-5 MORTALITY BY TWO-THIRDS**				
Under-five mortality (%)		94 (2003)	72 (2009)	53	Possibly
MDG5	**REDUCE MATERNAL MORTALITY BY THREE FOURTHS**				
Maternal mortality rate (per 100,000 live births)		469 (2003)	498 (2009)	122	No
MDG6	**HALVE AND REVERSE SPREAD OF HIV/AIDS AND OTHER MAJOR DISEASES**				
Incidence of tuberculosis (per 100,000 people)		359 (2003)	417 (2009)	90	No
HIV prevalence rate (of population ages 15-49)		1 (2003)	1 (2009)	1	Yes
MDG7	**ENSURE ENVIRONMENTAL SUSTAINABILITY**				
Improved water source (% population with access)		37 (2000)	41 (2008)	65	Possibly
Improved sanitation services (% population with access)		10 (2000)	31 (2008)	57.5	Possibly
Deforestation rate (%/year)		2 (1990)	0.5 (2010)	0	Possibly
MDG8	**DEVELOP A GLOBAL PARTNERSHIP FOR DEVELOPMENT**				
Mobile phone subscribers (per 100 people)		6 (2005)	31 (2011)	..	Yes
Internet users (per 100 people)		0.6 (2005)	1.6 (2009)	..	Possibly

Source: World Bank database and Instat

III. GOVERNMENT STRATEGY AND PROGRAMS

31. **By most accounts, the government program put in place in 2006 was a remarkable change over the previous periods.** The five year development plan – the Madagascar Action Plan (MAP) - a second generation Poverty Reduction Strategy (PRS), was a considerable step forward in terms of strategic orientation and its ambitious, yet realistic objectives. It was broadly endorsed and supported by the international donor community. With the benefit of hindsight, a number of private sector and civil society partners consulted during preparation of this ISN have argued that while the MAP was a remarkable effort to provide a framework for development, it suffered from a lack of prioritization and is perceived as a technocratic exercise driven by the Presidency with little consultation with the main actors of Malagasy society.

32. **Evidence from the period 2007-08 convincingly shows that much progress was in the making in the implementation of the MAP.** The program included 8 basic commitments: (a) responsible governance; (b) connected infrastructure; (c) educational transformation; (d) rural development and a green revolution; (e) health, family planning, and HIV/AIDS; (f) high growth economy; (g) cherishing the environment; and (h) national solidarity. The programs for implementing the MAP had largely been elaborated on the basis of sectoral strategies, among which rural development, health, education, rural water, transport, and HIV/AIDS. Other sectoral strategies were in the process of preparation when the crisis erupted, and remain unfinished.

33. **From a strategic and programmatic viewpoint, the current situation constitutes a considerable setback from that prevailing during implementation of the MAP**. The crisis has put the MAP implementation on hold and its objectives are largely beyond reach under the current circumstances. The main instrument that guided the implementation of the MAP, the annual budget laws, which included results agreements between the President and cabinet ministers, has all but vanished, in concomitance with the drastic reduction of budgetary resources. The three pillars identified as the main sources of growth in the MAP, i.e., tourism, agriculture, and textile, have suffered from the crisis and the reduced level of investments. Only agriculture has shown signs of resilience as the rice sector is mostly oriented towards self-consumption and the export oriented commodities (lychees, vanilla, green beans, shrimps) have to some extent remained insulated from the political crisis.

34. **Currently, there is no formal government strategy to speak of**. Yet, while there has not been any official statement as to whether the MAP is still relevant or not, one could argue that by inertia or by default the MAP is still the basic policy framework under which the administration works. This is also understandable to the extent that the transition government is essentially running current affairs and in principle is refraining from committing the country to long term policies changes.

35. **The protracted nature of the political crisis is making this situation untenable**. Policy, regulatory and programmatic decisions need to be taken on a regular basis and in the absence of clear guidance, overall management of public affairs tends to be conducted on a piecemeal, haphazard, and uncoordinated basis. The MAP unfinished agenda especially on the regulatory front and in the establishment of autonomous institutions, has created a vacuum that is being filled through short term expediency depending on opportunities for private sector "deals". This has not only worsened the perception that public policies are captured by influential private sector alliances but may cause reversals of policy reforms in some sectors (telecom, transport, custom management, mining, competition policies). This situation is fraught with risks as: (i) the private sector is not prone to invest in an unstable and unpredictable business environment where the playing field is increasingly unleveled; and (ii) donors have a hard time justifying their interventions in an undefined policy environment. In such a context, it is worthwhile to note the resilience of the Malagasy actors both in the private and in the public sector and the fact that a number of operators and officials are committed to pursue their tasks and should be commended for having prevented the current crisis to unravel and spin the economy out of control.

36. **Malagasy authorities had to use austerity budgetary policies to stabilize macro-economic and financial variables**. The political crisis had a double impact: (i) it caused a

contraction of GDP by about 4 percent which shrank the formal economy hence the fiscal base of Government revenues; and (ii) it led to substantial reduction of the aid flow of which Madagascar is so dependent on. The recent Public Expenditure Review (PER) carried out by the Bank shows that the Government resorted to drastic cuts of public expenditures in the order of 20 percent in real terms between 2008 and 2010. The Government is virtually not investing anymore and mostly caters to recurrent costs only (public investments before the crisis were at around US$500 million/year). Social sectors, infrastructure investments and maintenance were particularly hit with severe consequences on poor populations. At present, the State only accounts for 12-14 percent of GDP. The impact of current budgetary policies is linked to the prospects for an exit to the political crisis and the resumption of aid and economic growth. An early resolution of the crisis and the return of external financing will vindicate the Government's austerity measures that have permitted to keep the macroeconomic situation under control and be in a position to better transition towards a growth path. However, the persistence of the current situation and of such low levels of public spending will not only undermine the medium term capacity of the Government to provide basic services, particularly education, health and infrastructure, but will also make resumption of investments more expensive as time passes.

37. **In a politically-charged context and forthcoming elections, the Government has been keen to intervene** to impose price restrictions and controls whenever a surge of international prices could lead to an increase of domestic prices for strategic goods such as rice and gasoil. In both situations the Government forced private operators to keep prices fixed and in the case of rice, it resorted to its own imports and export bans. As these markets are essentially privately operated, there is a danger to see companies withdraw rather than sell at a loss, hence increasing the risk of shortages. While the rice situation is potentially at risk only during the inter-harvest period (*soudure*), the supply of gasoil is at higher risk of disruption depending on the evolution of international prices. Similarly, the Government is reneging on its commitment to make greater use of autonomous institutions such as the Roads Authority to ensure maintenance of the transport sector and wants to resort to force account.

38. **The transparency of some Government policies and programs in the natural resources sector is under question.** As the Government is pressed to address financial shortages due to cuts in foreign aid, it has benefitted from the renewed interest of non-traditional donors mostly attracted by Madagascar's mineral and land resources. For instance, a foreign mining company has provided US$100 million in 2010 in the form of budget support as a bonus payment against allocation of an exploration permit. The management of mining permits would deserve greater transparency as the role of the regulatory institutions is impaired by political interference. There is still considerable informality in the sector beyond the few big contracts and the EITI initiative is having a hard time taking off. In the same vein, Madagascar has been much criticized internationally and locally for not being able to deal with illegal rosewood logging as the most visible evidence of governance failure. After a surge of "authorized" exports in 2010, which have also generated considerable fiscal revenues, the Government has taken positive measures to ban new exports. More recently, the Government started to crack down on influential networks and collusion in an effort to bring continued logging under control. These efforts will need to be sustained with the greatest transparency (especially if the Government decides to seize and sell the substantial inventories already cut and in the hands of private

operators). It will be difficult for Madagascar to exploit investment opportunities in the mineral sector and eco-tourism as long as its credibility is tarnished by the perception of corruption.

39. **Despite a difficult context, most of the existing programs implemented through Project Implementation Units (PIUs) have continued to operate.** In spite of an uncertain policy environment and diminishing resources, PIUs have managed, by and large, to maintain a certain degree of autonomy in the implementation of the various programs and there is widespread evidence of commitment and dedication in pursing the objectives set forth in the implementation of critically important programs, especially those closely related to poverty reduction and community development. This is an important element to capitalize on and to take into account at the time of designing and implementing support programs.

IV. THE DONOR COMMUNITY AND THE WORLD BANK PROGRAM

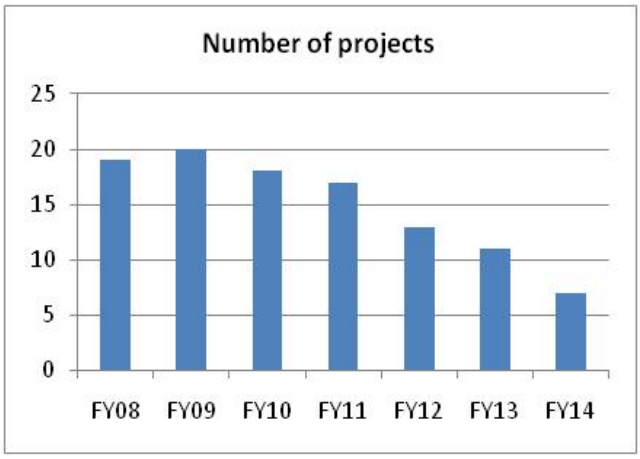
40. **In Madagascar, aid money has traditionally accounted for almost half of the Government's budget and two-thirds of the public investment program**. It has been, by far, the main source of funding in social sectors and infrastructure. Before the crisis, total contribution from the donor community amounted to US$627 million per year of which about 16 percent in budget support. The Bank and the European Union (EU) equally represented about 60 percent of the total contribution, AfDB, France, the US and the UN accounted for most of the rest, with Germany, Norway, Japan and Switzerland also playing an important role in specific sectors. Madagascar IDA15 allocation (2008-2011) was about US$600 million out of which only about US$80 million could be used for projects approved before the crisis erupted in March 2009 and US$42 million as an exception to OP/BP 7.30 in 2011. Madagascar also had to forego the possibility to access the Crisis Response Window (CRW) even if it is one of the countries in Africa that suffered the most from the combined impact of the political and financial crises. Similarly, the EU 600 million Euro envelope of the FED10 (2008-2012) has remained suspended since the beginning of the crisis and has only recently been partly resumed for an amount of 100 million Euros for priority programs.

41. **The political crisis of 2009 came as a surprise to most donors**, as the country was on a sustained growth path, reform programs were well under way and Madagascar seemed to be a success story in the making. However, governance issues had become increasingly worrisome and by the end of 2008, the Bank, the IMF and the other donors had already decided to put the budget support program on hold. As a consequence of the crisis, most donors have stopped new commitments while continuing existing humanitarian and poverty programs that are being channeled through specialized agencies or NGOs. In 2010, total disbursements amounted to US$447 million, representing an overall reduction of 30 percent. The distribution across sectors drastically changed: social sectors represent the bulk of aid recipients, all others sectors were drastically reduced especially infrastructure, while budgetary support all but disappeared. Cuts in the investment budget have had a direct negative impact on growth and drastic fiscal reduction in the budget has put the public services delivery system at risk.

42. **Aid has helped mitigate the impact of the current crisis on households and preserve a certain level of social services, but the overall impact is severely constrained**. The continuation of donor support to social services has failed to improve significantly social

indicators. This could indicate that: (a) the country did not get enough aid to counterbalance the effects of the current political and economic crisis; and/or (b) aid effectiveness has been limited as (i) donors' intervention has become increasingly fragmented and "ad hoc", and (ii) a growing share of external support has been channeled outside of the public sector (less than 10 percent of donors' disbursements in social sectors were executed by the Ministries of Education and Health in 2010) through NGOs and local agencies so as to reduce fiduciary and political risks. This has resulted in the quasi-paralysis of the public service delivery systems and has left huge gaps in other development areas such as infrastructure (water and roads), income generating activities, and institutional capacity, which are also needed for the performance of the social sectors.

43. **The Bank portfolio consists of 14 projects for a total commitment of about US$900 million and an undisbursed balance of US$220 million.** The Bank's program has been under OP/BP 7.30 (dealing with de facto Governments) since March 2009. This involved suspension of disbursements and no new lending, with some exceptions. Two assessment missions conducted in May and December 2009 determined that the Madagascar portfolio meets the preconditions for resuming disbursements for the existing portfolio although the criteria for new lending are not yet met. As the political stalemate drags on, the Bank has followed a cautious but pragmatic approach. Portfolio disbursements were progressively resumed in different waves at the end of 2009, May 2010 and April 2011 to attend to the plight of the most vulnerable segments of the population, to address the most pressing fiduciary, safeguard and reputational risks, and to maintain the integrity of the portfolio and of projects' human and physical assets. Also, an exception to new lending was granted for an additional financing to the Environment Program in June 2011 on the ground of its unique global public good and substantial social safeguard risks linked to the end of the current financing. In the absence of new lending operations, the portfolio will progressively shrink from some 20 projects in FY09 to about 7 by the end of the ISN period.



44. **A major portfolio restructuring effort is being carried out to enhance its relevance and impact.** As a result of the application of OP/BP 7.30, portfolio performance rapidly started to degrade as the lack of disbursements impeded normal implementation and PIUs were put in "survival mode". Fortunately, Bank supervision was never stopped and as disbursements progressively resumed it was possible, by and large, to bring projects' performance back on track. However, as the crisis endures, it is necessary to review the viability of the portfolio and the likelihood to reach the stated objectives in view of institutional constraints, limited policy dialogue, possible fiduciary issues and the need to address the most urgent needs of the poor. Portfolio attrition and the lack of new lending have caused the Bank to be out of key sectors such as health and education, and soon infrastructure. Portfolio restructuring will refocus project interventions through greater regional concentration and integration while exiting from activities that have become unviable in the present context or that are at risk of political interference. Released funds would be reallocated from within the portfolio to priority activities (see below).

45. **The Bank has taken advantage of reduced operational activities to develop an impressive program of analytical work and reaching out for new partnerships.** The flagship of our renewed Analytic and Advisory Activity (AAA) program has been the completion of a collection of 21 Policy Notes covering all sectors and putting together a wealth of knowledge accumulated over the last decade of engagement in Madagascar. Each note was widely discussed during "Development Dialogue" events with all stakeholders including private sector, civil society, academia, media, and ministerial technical level. The Notes Collection has been subscribed by all donor partners and it is the point of reference for the formulation of possible sectoral strategies and policies, thus facilitating re-engagement when conditions permit. In parallel, the Bank has also embarked on a major multi-phase AAA in the area of governance looking at: (i) political economy aspects including detailed case studies of the mining and forestry sectors; (ii) governance of the health and education sectors; and (iii) a forthcoming Governance Action Plan. In addition the Bank has completed selected pieces of major sector work in areas such as: (i) health and nutrition; (ii) urbanization; (iii) environment; and (iv) agriculture marketing. Also the bi-monthly publication of Economic Updates by the Country Office is widely reported in the press and highly appreciated as an effective instrument of knowledge sharing and public policy debate. The professionalism and rigor of this AAA effort allows the Bank to play a role of non-partisan honest broker in paving the way for renewed engagement in support of Madagascar development challenges.

46. **The dialogue with the Government has remained constrained during the crisis period.** Consistently with the rest of the donor community, the Bank has maintained a dialogue at the technical level with the Project Implementation Units (PIU) and up to Secretary General in the Ministries when needed. This has permitted to address most portfolio issues and to continue to carry out project supervision. However, the dialogue has remained limited at the political level (Ministers and Cabinet members), which has not been conducive to engaging on underlying strategic and policy issues and on the definition of a lending program. However, the Bank used its strong engagement on the analytical front as a way to remain engaged on knowledge and policy issues. This was possible through the wide public policy debates and information sharing events that were organized with all stakeholders and relayed publicly.

47. **Aid coordination in the country has functioned reasonably well since the beginning of the crisis** in terms of constant and effective communication among donors through heads of agencies meetings and regular sectoral groups' coordination efforts. This is also evidenced by attempts to adapt to prevailing circumstances and address implementation constraints by various donors in a collaborative way. Yet, the absence of adequate and effective communication with the Government means that the entire donor apparatus has had to function excessively independently. In the absence of a normal dialogue with Government counterparts on policy issues and programs, the impact of donors' coordination mechanisms is increasingly undermined. Aid coordination will eventually need to be revamped to more effectively contribute to the development of a policy and programmatic framework.

48. **As the political crisis drags on, the donor community will need to demonstrate greater consistency in addressing the difficult challenge of how to make justice to its poverty reduction mandate while not undermining political mediation efforts**. There are

considerable risks of further social and economic deterioration, with a non negligible probability of facing renewed political and social unrest in the future. To avoid the risk that Madagascar progressively falls in the fragile state category, guidance provided by the recent World Development Report on Conflict, Security and Development will need to be brought to bear. In such a context, one needs to recognize the cost of donors inaction on three grounds: (i) the lack of formal policy dialogue enhances the risk of reversal on a number of critical reforms and achievements of the past; (ii) the end of new financing puts key public programs at the risk of collapse jeopardizing years of achievements and capacity building; and (iii) the continued deterioration of the socio-economic situation will make the cost of re-engagement always higher. At the same time governance issues will need to be effectively incorporated in the design and implementation of public programs as "business as usual" is not a valid option going forward.

Box 1 – Lessons from 2010 WDR – Relevance for Madagascar

The lessons from the 2010 WDR on Conflict, Security and Development are particularly relevant to Madagascar. While the country does not qualify as being in conflict, or even post conflict, it does show several characteristics of a fragile state in which: (a) there is mounting evidence of security problems linked to political instability and increased vulnerability, especially for the poorest segments of the population; (b) the dynamics of the country governance shows structural signs of recurrent political crises which work against the re-establishment of peace and social balance; (c) youth unemployment, political exclusion, and inequality affecting regional or ethnic groups are associated with higher risks of unrest; and (d) weak institutional legitimacy is associated with concentration of power in the absence of effective checks and balances.

The WDR makes a number of points relevant for Madagascar:

- There is a need for careful sequencing in building up appropriate policies conducive to peace, growth and economic and social development. While sustained implementation of social programs with support from the international community may be essential, this in itself will not resolve the issue of weak and fragile governance which may feed the grounds for insecurity, violence and instability.
- Focusing on citizen security, justice and jobs means that most other reforms *will need to be sequenced and paced over time* including political reform, decentralization, privatization, and shifting attitudes towards marginalized groups.
- Phasing transitions from humanitarian aid. Donors may rely on their own capacities to deliver early results in their humanitarian aid, often for lack of trust in the national institutional capacities. However, the more time spent on "parallel" delivery systems, the harder it will be to transfer them back to national systems that have in the meantime been largely neglected and at risk of collapse.
- It can take more than a generation to reach an acceptable level in the quality of public service, to eradicate corruption, and to get to an acceptable rule of law (*état de droit*). This shows that there is no quick-fix to be expected in the governance of fragile countries but at the same time there are some low-hanging fruits with quick pay-off which requires resolution and perseverance.

A new strategic approach for Madagascar, in line with the lessons of the WDR, would call for a much more systematic focus on institutional reforms along the following points:

- There is a clear need to restore confidence in collective action and develop programs that support bottom-up state-society relations including community-based programs for employment and associated service delivery, and access to local justice and dispute resolution.
- Complementary programs for institutional transformation in the priority areas of decentralization, security, justice and job creation.
- Involvement of women in security, justice and economic empowerment.
- Focused anticorruption initiatives demonstrating that new initiatives can be well governed with visible results.
- Democratization requires building strong legitimate institutions and autonomous checks and balances beyond elections so as to break the cycles of political instability and provide a sustained level of citizen security, justice, and jobs.
- Need for external support and dialogue as the cost of inaction far outweighs the benefits. Conditioning support until the demonstration of participative democracy through elections may be a restricted view on what is needed to promote citizen security.

V. WORLD BANK INTERIM STRATEGY

A. Lessons from the 2007 CAS

49. **The 2007-2011 CAS put forward a program to support the MAP that was grounded on two pillars: (a) removing the bottlenecks to investment and growth in rural and urban areas; and (b) improving access to, and quality of, services to people.** The two programs were supported by cross-cutting programs on governance and capacity building. The CAS results framework relied on a large portfolio of 17 projects as well as a new Poverty Reduction Support Credit (PRSC) series. The Bank-IMF Joint Staff Assessment Note (JSAN) of December 2008 pointed to progress, even if it highlighted weaknesses on governance such as the poorly performing judicial sector. All projects under implementation had satisfactory ratings. A complementary AAA agenda targeted knowledge gaps on growth and competitiveness (Country Economic Memorandum), social sectors (health and education), fiduciary (Public Expenditure and Financial Accountability), public resource management and civil service. In addition, collaboration within the World Bank Group was good. The International Finance Corporation (IFC) was supporting a strong program in finance, telecommunications, and advisory services. The Multilateral Investment Guarantee Agency's (MIGA) outstanding portfolio consisted of five guarantee contracts.

50. **By the end of 2008, encouraging progress was under way but governance issues were a growing concern.** Good progress was under way: (a) in areas with strong counterparts (finance, education); (b) where programs had matured (nutrition, transport); (c) where intense involvement of the team overcame the obstacles of coordination (health); and (d) where capacity building efforts have paid off including strong participation of the private sector (integrated growth poles). The reasons behind governance concerns were due to overconcentration of Government decision-making at the top; fragmentation of the public administration; political interference in the implementation of some projects; conflict of interests, lagging reforms in some critical areas such as land, business environment, energy, and finally, capacity constraints, which remain an important cross-cutting concern.

51. **Undoubtedly, the protracted political crisis of 2009 has put at risk preliminary achievements under the CAS**. If anything, recent events have reinforced the need for deeper reflection on the governance and shared growth agenda. Similarly, shifting alliances among the family elites and their capacity to influence power sharing is an element that will need to be better understood as it plays an important role in the recurrence of political crises. The Bank has been a reliable partner to the Madagascar Government over the last decade and has been able to accompany a sustained growth agenda. However, 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. Not enough attention was paid to the need to have strong autonomous institutions, transparent regulations and checks and balances to confront the overwhelming predominance of the Presidency. Good overall country economic performance may have given to the donors excessive reliance and confidence on the role of "champions" despite the deterioration of the governance situation.

52. **CAS and ISN Evaluation.** It would be difficult to carry out an evaluation of the previous CAS since it was under implementation for only one and a half year. Also, the original results matrix that was entirely cast in support of the MAP is outdated and would not be an appropriate framework if it was to be extended to the current ISN. Therefore, the revised ISN results framework (Annex 1) has been updated along the lines of recent strategic thinking both at the national and regional level (see below). While the current ISN outcomes and milestones are only focused on what is achievable from planned activities during the interim period, it is expected that the medium term objectives and challenges will extend over the next CAS. The CAS Completion Report will therefore be deferred to the next CAS cycle which will also cover the ISN period.

B. A Medium Term Strategic Approach

53. **Madagascar is currently in a state of increasing fragility**. The chronic political instability can be viewed as the culmination of two factors: (i) poor governance; and (ii) high vulnerability, including few sources of income and jobs. The challenge is how to address short term issues while under OP/BP 7.30 and simultaneously position the Bank for the medium and longer term prospects for development. The proposed ISN is designed with the dual purpose of: (a) addressing the most urgent short term problems of a rapidly deteriorating poverty situation with a government largely contested in its legitimacy but reasonably in command of the economy; and (b) paving the way to the normalization of the relationship with the Bank and the external donor community, whereby the country achieves credible elections and appoints a legitimate and internationally recognized government with whom the Bank would be expected to engage in the definition of a development strategy and a full-fledged CAS.

54. **In addressing these challenges the Bank can avail itself of three major pieces of analytical work carried out over the last year**: (i) the new Africa Strategy; (ii) the WDR on Conflict, Security and Development; and (iii) a comprehensive AAA program for Madagascar including a Policy Notes Collection subscribed by all donors present in the country and a programmatic ESW on governance. Undoubtedly the main challenge for the future of the country remains that of ensuring sustainable growth and poverty reduction. These dual and complementary objectives must be weighed against the background of a formidable challenge created by the country demographics, whereby the population of Madagascar can be anticipated to double in about two generations from now. This means that there are some 300,000 youngsters entering the job market each year. This begs the questions of where employment opportunities will come from, and how to provide the required social and infrastructure services against the current backdrop of high unemployment, increasing vulnerability and weak levels of governance. Also, the domestic market is necessarily limited by the extremely low purchasing power and budgetary constraint, while the deterioration of global prospects, especially in Europe, could curtail Madagascar opportunities for exports and tourism.

55. **The Bank strategic positioning to support Madagascar during the interim period and beyond will be structured around one foundation: (i) Governance and Public Sector Capacity, and two pillars (ii) Resilience and Vulnerability and (iii) Employment and Competitiveness.** These foundation and pillars will provide the "tutors" of the Bank's programmatic response and will define an obligation for results. They should be seen as medium

term objectives rather than within the reach of planned ISN activities given the current circumstances. However, the ISN proposes to keep these goals well in sight while addressing the short term needs albeit with more limited instruments and capacity to engage on policy dialogue with the transition government.

Box 2 – The Policy Notes Collection - A Development Agenda

The proposed ISN builds on the lessons of experience and the recommendations presented in the 2010 Policy Notes Collection. The fundamental approach is to build on Madagascar's strengths, while correcting its weaknesses to the extent possible.

Four key areas of strength have been identified in this respect as sources of growth:

- The environmental diversity. Representing 10 percent of the world's biodiversity, this asset represents both a challenge for conservation and a formidable asset for high value development activities such as tourism. Madagascar can and should become a prize destination for tourists as well as for potential investors.
- The mining sector. Beyond the existing industry of precious stones, the potential to develop the mining and petroleum sector is large. A renewed focus should be placed on transparent processes and institutions that can ensure good governance of the sector including by reviving the EITI++ approach.
- Agriculture. The country has traditionally been an agricultural based economy. The potential for further development is large, in view of available land and water. The major challenge continues to be that of increasing agricultural productivity and organizing the producers along value chain approaches with increased participation of the private sector along a PPP model. A most important and correlated challenge is that of improving access to land and land tenure arrangements.
- Local manpower. With a large and largely underemployed labor force, coupled with highly competitive wages, the potential for further development of labor based activities is large as demonstrated by the success of the Free Trade Zones and particularly the textile sector. The main challenge is to provide the incentives for a business climate conducive to domestic and foreign investments and to provide the required skills and professional training programs.

While focusing on the four areas of strength as described above, the country needs to deploy much increased efforts to address four most salient areas of weaknesses in addition to pervasive governance issues:

- Connectivity. Madagascar is far removed from economic, commercial and financial centers of the world. It is also constraint by the limitations of the internal markets. Therefore, Madagascar needs to remain an outward oriented economy, and must improve its internal transportation systems and its connections with the rest of the world (air, ports, roads, telecom).
- Human Development. Better implementation of sectoral priorities in health, education and social protection. Decentralization of services should be promoted and partnerships with private sector and NGOs should be developed. The impact of the political crisis had a dramatic impact on the viability of the public service delivery system and on human development indicators.
- Energy and Water. Sectoral strategies need to be developed to tap the hydro-power potential. Needs better coordination between central and decentralized administrations. The situation of the energy utility company will need priority attention as its financial situation has become unsustainable.
- Exposure to Natural Risks. Addressing this area of permanent vulnerability should receive increased attention, especially with regard to management of cyclones and droughts. Climate change and deforestation are areas of particular urgency for the formulation of appropriate strategies in which focusing on prevention should be the preferred approach.

a) The Governance Foundation

56. **Governance and public sector capacity remains the most serious pervasive and transversal issue that affects the performance of government's development efforts**. Notwithstanding the need to respond to urgent requirements in the social and economic sectors, success hinges on addressing some critical points that should be part of a long term Governance Action Plan (GAP) to be prepared during the ISN period. As evidenced in the ongoing Programmatic Governance ESW, the agenda is deeply political and will require a hard-nosed look at the way the Malagasy society is organized. Understanding "political market failures" will be critical as political patronage, exchanges of "favors" and "clientelism" have often become the best way to remain in power rather than by delivering public goods and services to the population. In such a system, the emergence of real statesmanship is made more difficult as new leaders will be hostage of the power alliances that brought them there. While addressing this issue, the Bank will need to recognize that: (i) it may not be fully equipped to do justice to this agenda and it will need to foster a cohesive and coordinated partnership with the other donors; and (ii) this is a long term effort and progress can be slow and frustrating but it needs to be pursued with perseverance.

57. **Supply side measures** are mostly part of an institution building agenda at different levels of the State: (i) the recently completed PER provides useful recommendations on the need to make public finance management more accessible, transparent and efficient both at the priority definition stage and budget execution including procurement; (ii) the use of non-budgetary resources is often the most obscure (especially in resources-rich economies like Madagascar) and a special effort should be devoted to increase the transparency of (semi) public agencies; (iii) given the excessive concentration of power in the Presidency, strengthening the capacity and autonomy of counter-power institutions such as the Parliament, the judiciary, state auditors, and anti-corruption agencies (BIANCO, SAMIFIN) will be critical; (iv) support for a decentralization process that will provide the communes with the capacity and the funds to play a greater proximity role in the delivery of services; (v) a much more transparent management system of the mining/oil permits needs to be put in place together with the strengthening of sectoral institutions and the revamping of EITI initiative; (vi) different mechanisms will need to be devised for the implementation of public programs, through a stronger participation of the private sector, the civil society and the media.

58. **Demand side measures** have so far remained incipient but are critical to the capacity of the citizens to extract better governance, control for impunity and foster a more accountable public service delivery system. New tools such as community score-cards, participatory budgeting, expenditure tracking, social auditing, etc., have been experimented at the pilot scale in Madagascar and have shown encouraging results. It is proposed to extend them to 34 communes as part of the Government commune support program. Access to reliable information needs to be expanded through strengthening the role of the media and civil society which in many cases only represent their political patrons rather than a constituency at the local level. An even more rewarding agenda would be to develop a social mobilization and empowerment program that focus on building institutions OF the poor rather than institutions FOR the poor, hence bypassing all sorts of intermediaries who have often proven to be partisan and expensive. This approach would promote economic opportunities by organizing and building economies of

scale for institutions such as savings and loans groups, producers organizations for value chains and marketing, water users associations, forest management committees, parents associations, etc. By creating "voice" and scale through federative movements, networking, linkages with the private sector, and asset creation, these measures would foster a reaching out strategy for the poor themselves so that they can be in a stronger position to demand better governance from the public sector and to deal with the private sectors.

b) Vulnerability and Resilience

59. **Reducing vulnerability and improving resilience in addressing the most urgent problems posed by the crisis, especially with regards to social conditions, is critical to put Madagascar back on the MDGs' track.** Madagascar is particularly vulnerable due to a combination of weak institutions, low human development, limited infrastructure, and few buffers and safety nets. Reestablishing an adequate level of service provision in health, nutrition, education and social protection will be a priority in the context of the semi-paralysis of the public system with most donors' interventions resorting to deliberate by-passing of regular institutional channels. Building resilience to shocks such as natural disasters, price hikes, political instability and the new climate change trends is essential to prevent that the development clock be set back at every event. In particular, Madagascar is one of the countries in Africa most vulnerable to cyclones, floods and droughts, which requires building climate information in the investments decision-making process and in poor people behaviors (such as through the promotion of adapted infrastructure and building norms). Madagascar would benefit from mainstreaming risk reduction and climate change adaptation into the overall development and budgetary process.

60. **Social empowerment and the establishment of effective and well targeted safety net systems will help protect the most vulnerable from idiosyncratic shocks as they can both strengthen resiliency as well as smooth consumption**. Also, for poor urban consumers, safety nets will be a key instrument to mitigate the likely impact of future food price increases so that agriculture producers can reap greater benefits from market prices. Labor intensive works can have the advantage of showing rapid results while contributing to generate revenues for poor people. Insurance-like mechanisms could be developed and supported that can reach out more effectively to private health care providers as well as a way to pool risks and reduce transaction costs for agriculture and storage. Building empowerment at the decentralized level and promote collective action at the community level, especially through women's organizations, may be one of the most effective and low cost approaches to building resilience at the local level. Traditional mechanisms of solidarity and self-reliance could be developed through capacity building and by facilitating access to assets and credit. Helping vulnerable groups to adapt their livelihood and become more self-reliant will make them more resilient to shocks and climate change.

61. **Almost three years into the crisis, Madagascar is at an increasing risk of falling into a "fragility trap" of low growth, weak human capital, low capacity and poor governance, from which it would take substantial effort and time to emerge**. To prevent the fall, the ISN proposes that the Bank intervenes in a few areas where it is demonstrated that the lack of interventions by Government and other partners is causing an excessively high price to be paid by the poor and is heightening the risk of the country further sliding towards fragility. The areas that show the biggest gaps and where it is the most compelling to address short term impact are

related to the risk of: (i) a possible failure of the public service delivery systems to provide basic health, vaccines and drugs; (ii) the anticipated disruption of financing in the education sector that may cause a no-school year in 2012/13; and (iii) a possible external shock through the forth-coming cyclonic season (January-April) or a food crisis that will undoubtedly add additional stress on an already severely battered poor population and transport network (see para. 77).

c) Employment and Competitiveness

62. **Employment creation** must address the demographic challenge mentioned earlier and the fact that half of the population will be urban in the next 40 years, mostly young. Two-thirds of the population is searching for jobs or under-employed. In the absence of an inclusive employment strategy, successive Governments typically adopted a piecemeal approach to prevent resurgence of social and economic pressures. A recent study[1] recommends that efforts to sustainably reduce poverty should center on improving earnings for the poor. This implies a broad agenda: (i) restoring macroeconomic and political stability, improving the investment climate to promote employment growth in both the formal and the informal sector; (ii) removing obstacles that prevent workers in low earning sectors from shifting into higher earning sectors; and (iii) help increase productivity in low earning sectors – agriculture, household enterprises, urban informal sector – where most of the poor work. Short-term measures with high impact on job creation will be undertaken such as through public work programs that could reduce poor households' exposure to earnings shortfalls and at the same time contribute to much needed improvements in infrastructure. Expansion of SMEs support programs that address firm-specific constraints will be needed: access to finance, access to market, and provision of technical and vocational training. Efforts to improve essential physical infrastructure should be considered a priority in areas such as electricity, transportation and telecoms. In rural areas and small towns, where the majority of the population lives, increasing agriculture productivity, rural livelihoods and decentralized services will promote a dynamic context of rural enterprises rather than poor farmers working for self-consumption. Orienting agriculture along the lines of value chains approaches may be a more effective way to attract the private sector and promote commercial agriculture. Finally, governance issues need to be tackled for the public sector to establish a friendly, competitive and secure environment where opportunities for corruption are minimized.

63. **The role of women as a catalytic factor of development needs to be recognized**. The chances of achieving the dual objective of employment and competitiveness can be boosted by ensuring that women do not suffer from various forms of discrimination in accessing equal remunerations in jobs, business start-up, access to inputs (credit, land) and to services (health and education). Similarly, women's empowerment should be accompanied by programs that can free up the time that rural women typically spend on fetching water and fuel wood for more productive uses. Identification and prioritization of the main bottlenecks affecting women's integration in the economy will be an area of study and action under the ISN, including through a revision of the portfolio from a gender perspective.

64. **The promotion of Growth Poles and Public Private Partnerships (PPP)** in specific locations with comparative advantages (mining, agro-business, eco-tourism, transport corridors,

[1] World Bank research paper. October 2010. *Labor markets conditions in Madagascar.*

manufacturing) has shown to be an effective engine of regional development and growth. This approach also offers useful examples of an integrated approach to urban development and infrastructure investments linked to jobs. Similarly, the special status of FTZ and related fiscal advantages granted some ten years ago have been successful in attracting some 400 firms and creating more than 100,000 direct jobs. A number of reforms will need to be pursued: (i) provide a stable regulatory and institutional environment for the private sector; (ii) the Economic Development Board of Madagascar (EDBM) will need to recover its role of business promotion and address the normative side; (iii) addressing land tenure issue has become long overdue and is today a major limitation to investments; (iv) revamp vocational training to better match the skills of the labor market with business needs.

65. **IFC has been active in ensuring the soundness of its portfolio by working closely with its sponsors.** After almost three years of political stalemate and ensuing economic impact, IFC's portfolio suffered no losses. Whilst the value of IFC equity investment may not reflect its optimum value, opportunities for exits remain challenging. IFC will pursue investment opportunities (equity, loans, and risk mitigation instruments) in the infrastructure sector and also promote access to finance (A2F) to SMEs generally and to Education/Health sectors in particular. Alongside the investment activity, IFC seeks to include Advisory Services support to optimize impact and sustainability. Access to finance and micro-finance is an area where the Bank and IFC could develop joint products to facilitate access to credit by SMEs, employment opportunities and risk management by financial institutions.

C. ISN Implementation

66. **A couple of scenarios can be anticipated subject to the evolution of the political situation. The ISN will need to remain flexible so as to adapt to prevailing circumstances.**

- *A base case scenario*, which is the underlying assumption of this ISN, whereby the present process continues to advance in the search of an exit to the crisis. There is a distinct possibility that the institutions required by the roadmap (Union Government, expanded Parliament, restructured Independent Electoral Commission) get established and are able to move the electoral process forward albeit in a form that may be considered as not sufficiently inclusive by all parties. This will perpetuate uncertainties about the likelihood that the electoral process may eventually lead to full international recognition. It is however possible that even a less than perfect electoral process, run by a partially accepted transition government, may still generate a certain level of international recognition if it has a chance to lead to fair elections. Such situation may leave the international community divided, including within the Bank's authorizing environment. Faced with the current sharp degradation of the social situation in the country, the Bank's main objective during the interim period would be to help Madagascar avoid further slipping towards fragile status and address the plight of the poor population in line with its mandate and applicable policies.

- *A high case scenario* whereby the present transition process reaches a national consensus on the implementation of the roadmap to elections and moves ahead in line with the recommendations of the international community. With the endorsement of the

SADC/AU and sufficient international recognition, the Bank may be able to provide a more substantial level of support to the transition Government including a possible emergency credit together with the IMF. Under reasonably optimistic assumptions, such a scenario that would lead to the establishment of an elected and fully recognized government could take about 9 to 12 months to conclude. This will pave the way to a re-engagement process that would include normalization of the dialogue, re-activation of an IMF program, resumption of the lending program and the preparation of a new CAS with a focus on the pillars described.

- *A low case scenario* whereby a political solution becomes impervious to mediation efforts and the situation takes a decidedly negative turn towards unconstitutionality, government paralysis, economic and social collapse and civil violence. Depending on the severity of such scenario the Bank will need to reassess its position which could include a return to the (partial) suspension of the portfolio and no new lending.

67. **The ISN proposes to rely on four main components**: (i) the restructuring of the current portfolio; (ii) the AAA program; (iii) partnership; and (iv) a very cautious, strategic and selective approach to new lending in critical areas.

Component 1. Portfolio Restructuring

68. **In a context where the lending instrument is likely to remain constrained by the application of OP/BP 7.30, the portfolio will have to play a much more strategic role in the implementation of the ISN**. The authorization to resume portfolio disbursements in April 2011, makes it necessary to revisit the impact and performance of existing projects to ensure that the Bank makes the best possible use of the available resources and that activities are still viable and relevant. It is proposed to refocus the scope of the portfolio along the following main criteria to maximize development impact, especially on the most vulnerable, while managing risks:

- Work at "arm's length" with the Government on activities that can be insulated from the risk of political interference, unless they are in support of critical functions that are needed for institutional purposes.
- Restructure/cancel activities that are vulnerable to changes of sectoral policies or that are not viable anymore given the circumstances and reallocate resources to priority areas.
- Refocus activities on priority geographic areas with high concentration of poor where the likelihood of integrating portfolio activities is the highest, including those that offer opportunities for private sector participation.
- Foster greater integration and collaboration among projects in the implementation of community-based activities and seek greater multi-sectoriality of projects' intervention.
- Pursue activities that are responsive to the ISN pillars and foundation, have the highest demonstrated impact on poor populations and have good implementation capacity.

69. **Portfolio restructuring will involve three levels of revision**: (i) projects that will need to revisit their approach, re-orient their activities geographically, reach out and complement other

projects, reallocate funds internally, extend closing dates[2]; (ii) projects that will need to more fundamentally restructure their components and/or objectives, cancel funds, reallocate funds internally, extend closing dates[3]; and (iii) within portfolio cancellation and reallocation of US$18 million from projects relinquishing unviable activities and canceling funds to the benefit of two priority projects in urgent need of resources: (a) US$6 million for a repackaged HIV/AIDS/health and nutrition project that will permit the continuation of existing activities and avoid disruption in the delivery of critical services in a limited number of the poorest districts; and (b) US$12 million for emergency works under the Transport Infrastructure project for infrastructure that poses an immediate risk of collapsing or giving way. Funds reallocation will be carried out as provided under the OpMemo on Cancellation and Recommitment of IDA Resources. See Annex 2 for a summary of proposed changes and a description of activities for the two projects receiving additional funds.

Pillars/Foundation	Restructuring Actions	Projects involved
Governance & Public Sector Capacity	• Restructure governance activities to focus on public finance, social accountability and land tenure • Strengthen coordination to improve social accountability in mining areas • Improve transparency in the management of mining sector (including EITI) • Address risks of political interference, fiduciary aspects, working at arm-length with Government	PGDI PGRM, PGDI PGRM All projects
Vulnerability/ Resilience	• Better integrate project activities at community level with regional focus • Repackage a basic health services approach including HIV/AIDS and nutrition ***(US$6 million new funds from portfolio reallocations)*** • Address most urgent repairs esp. from cyclone damage ***(US$12 million new funds from portfolio reallocation)*** • Risk reduction activities including natural disaster proof building norms in poor vulnerable areas	PIC, PSDR, FID, BVPI, EP3 HIV/AIDS Transport Infrastructure GFDRR
Employment/ Competitiveness	• Refocus and integrate project activities around the Growth Pole (PIC) regions • Improve access to SME finance and microfinance including in PIC regions • Restructure telecom PPP to promote private sector investments in poor areas • Improve support for artisanal and small-scale mining activities and social impact esp. in the South • Improve knowledge and technical dialogue for future investments in the energy sector	PIC, PSDR, FID, PWSR, Rural Transport PASEF, PIC PICOM PGRM PWSR

[2] Rural Development, Watershed and Minor Irrigation, Third Environment project, Rural Transport, Food security. Micro-finance ACGF, and Mineral Resources.
[3] Governance, Integrated Growth Poles, Telecommunication, Energy and Water.

70. **Portfolio restructuring will allow improving projects' performance and will be accompanied with proactive portfolio management.** Problem projects are expected to be brought back on track through a revision of effective implementation mechanisms and more attention to evidence-based results/outcomes. Unviable activities/components will be canceled and funds redirected to address urgent needs. Special attention will be devoted by the fiduciary teams (procurement and FM) to implement rigorous procurement plans and packaging as well as addressing issues of ineligible expenditures and strengthened fiduciary systems and controls. Portfolio restructuring will also initiate a re-alignment of the portfolio results with the ISN strategic pillars/foundation and set the basis (together with the AAA and partnership) for a more comprehensive strategic discussion on program priorities when the conditions permit. Finally, it will also carry out a review of the gender situation in our projects with a view to refocus and enhance the role of women in development.

Component 2. The AAA program

71. **An impressive body of analytical work and corresponding dissemination events has been initiated over the last two years** to establish a strong knowledge basis on which to re-engage. As shown in the table below, the main pieces of the AAA program are organized along the ISN pillars/foundation with the following objectives in mind: (i) establish a comprehensive framework of accumulated knowledge around the preparation of a collection of 21 economic/sectoral policy notes; (ii) carry out a comprehensive review of governance issues from a political economy point of view including in depth sectoral analysis of productive sectors (mining and forestry) and social sectors (health and education); (iii) update the knowledge on key priority sectors with little information (urban development, agriculture marketing, environment, health, safety nets); and (iv) set the stage for promoting a greater participation of the private sector (ICA, labor markets, PPP framework). In the absence of a normal dialogue with the authorities, the Bank has used the civil society, private sector, academics, donors and media as a sounding board to engage and leverage policy changes and reforms. Admittedly this unique Bank effort has permitted the main Malagasy stakeholders to stay engaged with the government on key policy issues and avoided major reversals of past reforms.

72. **Going forward, the Bank will pursue a more pointed AAA program aiming at raising public awareness and recognition of the cost of the crisis and showing how it is distancing Madagascar from its development path.** The Bank would engage in a dissemination effort to bring relevant information to bear to the public in general, recognizing that demand for better governance will ultimately lead to more accountable institutions. It would build more of a "crisis watch" capacity to illustrate the way the present regression is mortgaging future gains in development outcomes, the cost of re-launching the economy which keeps on increasing as the crisis prolongs, and the failure of ad hoc responses. The Bank would disseminate more widely the lessons from the WDR on conflict, the risk analysis of the "fragility trap", the recently completed PER, and other just-in-time briefs and updates. In doing so, the Bank will look at ways to outreach more widely to the public through conferences and fora, partnership with academia and mass media including in local language.

73. The Bank would complete the existing AAA framework with some key strategic elements: (i) **a Governance Action Plan** that would build on the two preceding phases and operationalize a governance agenda that sets the criteria for future re-engagement including a description of the pitfalls and the risks of a "business as usual" model; (ii) **a Decentralization and Local Empowerment TA** that builds on the social accountability work already initiated in support of a broader decentralization agenda and building the bases for greater citizens participation and "voice"; (iii) **a Poverty and Inequality Assessment** that takes stock of the impact of the crisis, its differential impact on the population and particularly women, coping strategies and possible remedial action; (iv) **a Gender Assessment,** combined with the most recent WDR on gender will be an opportunity to identify the main constraints and corrective measures needed to promote a more effective integration of women in society and business; and (v) a **Regional Growth** series of policy notes to foster increased integration between the economies of Comoros, Madagascar, Mauritius, and Seychelles.

Pillars/Foundation	FY10/11		FY12/13
Governance & Public Sector Capacity	• Governance I (Political Economy Mining & Forestry)	Policy Notes Collection	• Governance II (Health/ Education) • **Governance Action Plan *(New)*** • Public Expenditures Review • **Decentralization/Local Empowerment *(New)*** • Land Tenure TA
Vulnerability/ Resilience	• Indoor Air Pollution/Ethanol • Health Country Status		• Health TA • Social Protection • **Poverty Assessment *(New)*** • Environmental Country Analysis • Ecosystem Valuation & Green Accounts
Employment/ Competitiveness	• CEM • Urban Challenge • ICA Note • Labor Markets Overview		• PPP framework • **Regional growth *(New)*** • Education TA • Agriculture Marketing • **Gender Assessment *(New)***

<u>Component 3. Partnerships</u>

74. **In the context of a much constrained policy dialogue and reduced aid programs, coordination among donors in an effort to maximize the impact of existing interventions is all the more compelling**. The Bank will ensure that both implementation of the restructured portfolio and the AAA program is mutually reinforcing and consistent with the intervention of the rest of the international community. The differential response by the donor community to the crisis situation in the country has created a situation where some sectors are grossly underfunded (infrastructure, institutional development, productive activities) while some others (health, food security) are well funded in aggregate but skewed towards some specific programs (Global Fund, Malaria program) working from outside the public system. Similarly, implementation modalities by various donors have deviated from harmonization objectives of the Paris Declaration. As the international community is preparing to re-engage, it is important to commit scarce resources in a way that avoids duplication. In that respect it will be important to address the need to work at

arm‘s length with the Government in this period of uncertainty while maintaining the integrity of public service delivery systems. There is demand from all donors to maintain an effective coordination mechanism in place including strong sectoral groups that will eventually be able to engage the Government on key policy issues. As the situation hopefully normalizes, donors will need to return to harmonized principles on procedures and implementation mechanisms.

75. **The Bank, the UN system and the AfDB have followed a joint path in the preparation of their respective interim strategy document** and have participated in the respective discussion workshops and seminars. A harmonized approach during this transition period will facilitate the elaboration of a joint full CAS when the conditions permit. Further coordination efforts would be thought for the implementation of a Special Program for the South (the poorest part of the country) which the UN proposes to initiate through a multi-agency effort to which the Bank could contribute through the refocusing of its portfolio interventions. An example of adaptation to the crisis situation through enhanced partnership has been the transfer by the Bank of the GPE Catalytic Fund for primary education to UNICEF so that the program could be continued. In the area of governance, it is hoped that the proposed GAP will coalesce donors’ interest around priority areas of interventions and have a unified approach. Clearly there are several areas where the Bank is not fully equipped to provide the needed support or has no comparative advantage and it will not be able to achieve the expected goals without full cooperation with others, such as in the areas of justice, security, enforcement, and human rights.

Table 3: Donor Mapping by Sector

Priority areas	WB	EU	AFDB	BADEA	France/AFD	UN Systems	IMF	IFAD	Japan	Germany	Norway	USAID	Global	Switzerland
Employment & competitiveness														
(Micro) Finance	M	S			M	M								
Transport	H	H	H	M	S				S					
Energy/water	M		H											
Private sector development	H		M		H	M						S		
Agriculture/irrigation	H	H	H		M	M		M	M	S				S
Urban development	S	S			M									
Environment	H				M	S				M				
Vulnerability & Resilience														
Education	M		M		M	M			S		M			
Health/Nutrition/Populat.	H	M	M		M	M			S			H	H	
Social protection	M					M								
Food security	M	H				H						H		
Humanitarian relief		H			M	M						H		
Governance & Public Sector Capacity														
Justice/Parliament/Civil Society		M			M	S						S		
Governance/Social Accountability	M	M				M				S	S			M
Public sector/finance	H	M	M		S		H							
Budget support	H	H	M		M		M			S				

Contribution: H: High; M: Medium; S: Small

76. **The Bank will continue to play its role of knowledge Bank.** The preparation of the Policy Notes Collection by the Bank is a good example of extensive consultation and coordination with all partners for a final product that represents today a common basis for re-engagement and policy dialogue and to which all donors have subscribed. Also the Bank will pursue the production of its by-monthly Economic Updates which have been the common platform of economic intelligence in the country and which have represented the basic agenda item for the Heads of Agency coordination meetings. At the same time, in the absence of a normal dialogue with the authorities the Bank will continue to use civil society, private sector, academics, donors and media as a sounding board to leverage policy changes and reforms.

Component 4. New Lending

77. **New lending will continue to be very cautious and constrained as long as political uncertainty makes it difficult for the Bank to fully optimize the development impact of its work. In the meantime, new lending will aim to prevent the collapse of entire delivery systems and the deepening of the poverty crisis**. The Bank will need to be aware of the continued degradation of the socio-economic situation and Madagascar's high exposure to natural disasters. While the protracted political crisis continues to exact a heavy toll from the poor population, it will be critical to avoid that Madagascar falls deeper into fragility and that new unrest and violence do not further undermine development efforts and cause a much higher future re-engagement cost. Lessons from the WDR support the idea of remaining engaged in fragile situations and addressing the issue of the cost of inaction to avoid a further degradation of the social and security situation. Therefore, even under a persisting "base case scenario" where the electoral process takes longer than expected, the Bank proposes possible new lending in three priority situations where the evidence shows that the lack of interventions by Government and partners is causing an excessively high price to be paid by the poor and is heightening the risk of the country further sliding into fragility. The operations proposed below can be prepared in the context of the current dialogue and build on the existing portfolio without the need for major engagement or changes on the policy front.

(i) In the health sector it is critical to stop the resurgence of epidemic diseases and avoid further slipping of maternal/child mortality which is already far behind MDGs' targets. Indicative numbers for the 2012 national budget show further cuts both for investments and operational costs which will add to an already dire situation. The Bank has been a key donor in the past in promoting a coordinated approach to strengthening the health delivery system. The Agence Française de Développement (AFD) is the only donor that was able to maintain a minimum of bridge financing (US$10 million for the next two years) to address basic health needs through an operation that was initially supposed to be co-financed by the Bank for an amount of US$63 million and that could not materialize because of the crisis. The missed complementarily of interventions is also undermining the effectiveness of AFD financing. The Bank would reallocate some US$6 million for the health/nutrition sector through portfolio restructuring but this effort would barely be sufficient to cover about 15 percent of the targeted districts and hence the need for new lending;

(ii) In the education sector, the end of GPE financing in June 2012 will leave the Education For All program without any donor support and will put 5.3 million children currently enrolled in basic education at risk, with many likely to drop out of the system. Evidence shows that policies to enroll out-of-school children are both costly and complex, thus further dropouts will likely affect the system permanently. Similarly to the health sector, the 2012 indicative budget figures show further cuts which are likely to paralyze the Government's planning and strategic functions and shift even further the education cost burden to the parents beyond sustainable levels. A new GPE grant may become available after the country updates its sector strategy but it is unlikely to be in place before mid-2013. Also, a potential grant from the GPE will need to demonstrate its catalytic role by attracting financing from other donors. Therefore a Bank operation would serve as bridge-financing to prevent major disruption in the sector and facilitate a more coordinated approach to sector financing and reform efforts;

(iii) Every year Madagascar is confronted with severe external shocks stemming from its exposure to cyclones (January to April), droughts and locusts in the South. Moreover, in the last three years, the rise of rice prices have created the context for an impending food crisis which is most likely to create social unrest, especially if a poor domestic harvest coincides with high international prices. If such a situation were to happen the Government would have no fiscal space to address the resulting consequences in terms of destruction of infrastructure and crops, and loss of livelihoods. Apart from immediate humanitarian aid that could possibly be mobilized by bilateral donors, Bank intervention would be needed to fill the post-crisis gap in the area of disaster rehabilitation and repairs, social safety nets and agriculture support.

Pillars/Foundation	New lending (FY13)	Priority areas for future interventions
Governance & Public Sector Capacity		Governance – Multisector
Vulnerability/ Resilience	• Address health crisis (drugs and vaccines supply, epidemics, maternal/child mortality, nutrition) • Address education crisis stemming from the end of the Education for All Program • Address the impact of external shocks (natural disasters, food crisis) on the poor	Health Rural Livelihood Safety nets Climate Change-adaptation
Employment/ Competitiveness		Employment Transport Energy Land tenure Agro-business value chain PPP and growth poles Education

78. **In the course of the interim period, the positive evolution of the political situation will determine our capacity to go to the Board with a more comprehensive lending program**. In a first instance, once a road-map to elections is accepted by the international

community, the transition institutions are put in place, and an inclusive transition government is established with sufficient international recognition, an IMF/Bank mission would need to re-establish a macro-economic framework and set the stage for a possible Emergency Recovery Loan. As the political crisis progressively resolves and a recognized government comes into place, the Bank will need to lift OP 7.30 and reassess its lending program through a renewed dialogue and in view of the lessons from the past. The first area worth noting is governance, where the GAP to be prepared under the ISN will provide the main directions of a possible operation that will cut across sectors. Other areas that should build on existing knowledge and programs to prepare future investments and reforms over the ISN period are listed in the table above while addressing vulnerability and employment as the key objectives. The overall IDA envelope for Madagascar for the period FY12-FY14 is tentatively set at SDR252 million. The actual envelope for this period will depend on: (i) the country's own performance; (ii) its performance relative to that of other IDA recipients; (iii) the amount of overall resources available to IDA; (iv) changes in the list of active IDA-eligible countries; (v) terms of financial assistance provided (grants or loans); and (vi) the amount of compensatory resources received for the Multilateral Debt Reduction Initiative (MDRI).

79. **The suspension of Bank's lending during the crisis period has also been an opportunity to re-think our approach on how to move away from a "business as usual" model when we are able to re-engage.** While the proposed operations in the interim period will serve as a stop-gap measure to prevent further sliding away from the MDGs, a number of lessons from past interventions will need to be incorporated in the preparation of new lending which could already start during the interim period so as to be ready to re-engage when the conditions permit: (i) a more cautious and revisited approach to budget support is needed with fewer and better targeted prior actions and performance indicators, a more efficient, transparent and monitorable budget system, more sector specific measures and results-based funding; (ii) invest in decentralized systems and community-based interventions, working directly with intended beneficiaries and building social accountability mechanisms; (iii) promote better integration of various interventions (agriculture, transport, environment, private sector development) in key geographic area of high growth potential or poverty concentration; (iv) increasingly work through PPP mechanisms at two levels: a) implementation of public programs through outsourcing arrangements to the private sector or autonomous agencies, and b) promote private sector involvement, through the provision of public goods, for the commercial development of specific sectors (agriculture, eco-tourism, mining, telecom); and (v) continue to build on existing PIUs that have shown results and have been able to address fiduciary, reputational and safeguard risks as well as to mitigate the risk of political interference.

D. ISN Consultations

80. **Consultations undertaken in November/December 2011, revealed broad agreement with the Bank's assessment and strategic focus**. The Bank's team discussed the proposed ISN with representatives of the Ministry of Finance and the Ministry of Economy, of the private sector, civil society, academics and the donor community at large both bilateral (France, US, Japan, Switzerland, Norway) and multilateral (EU, UN, AfDB). There was appreciation of the difficulty of trying to match short term needs with medium term objectives and the need to

prepare for re-engagement while dealing with a Transition Government whose main purpose is to manage current affairs and lead to elections. Also, there was concern about the Bank's capacity to evolve rapidly towards a more engaging strategy if warranted by the positive evolution of the political situation. The private sector is particularly keen to be seen by the Bank and donors in general as a reliable partner that can be put to greater use in fostering growth and program implementation, including in crisis situations. There was demand for the Bank to help shape policies and investments that are more conducive to public-private partnerships and promote a governance agenda that can improve the investment climate for the private sector.

81. **Vis-à-vis the donor community, concerns were expressed about the need for greater donor coordination**. The issue is two-fold: (i) minimize the extra burden imposed to the administration in terms of monitoring and reporting requirements, different procedures, and requests for meetings; and (ii) avoid creating parallel structures to bypass the government during the crisis period at the risk of further undermining the performance of an ailing public administration system and making the return to normal mechanisms more difficult. The donor community ought to harmonize its views on what it means "no business as usual", particularly in terms of governance issues and implementation mechanisms. However, it was admitted that donor coordination can be facilitated through stronger ownership by the Government of development priorities and processes.

VI. RISKS AND MITIGATION

82. **This ISN takes place at a time of great uncertainty, most of which has been caused by the protracted political crisis**. Implementation of the ISN will take place partly through an electoral period which is likely to be acrimonious and contested. At this stage, it is not clear whether ex-President Ravalomanana will be able to participate to elections but in itself, his absence may carry the causes of the next crisis. In any event, electoral competition (both for legislative and Presidential elections) could be intense, in a context of weak oversight institutions that suffer of the perception of political biases in the eyes of the public opinion. Despite the uncertainties associated to the unfolding political process and the strained social situation in the country, the population has so far shown strong resilience and restraint in taking their discontent to the street. This should not be taken for granted as external shocks or politically motivated decisions may carry a spark that could cause wider popular unrest. Therefore, the risk of entering a disputed electoral process and even more to be confronted with disputed election results is high. The electoral process will need to be fully supported and observed by the international community so as to provide as much credibility as possible.

83. **Madagascar has managed remarkably well, given the circumstances, to keep macroeconomic indicators relatively on check**. However, macro-stability came at the hefty price of massive budgetary cuts and the semi-paralysis of the public system. With little margin to maneuver the Government is very exposed to possible shocks coming from international price increases (food or petroleum) or natural disasters. Also the materialization of important fiscal contingent liabilities represents an important risk that the Government may have difficulty to address. If that happens, the Government may feel compelled to intervene which will have consequences on sectoral policies and macro-stability. Delay in the re-establishment of an IMF

program is also a factor that undermines the confidence and the capacity of most donors to re-engage. Also, the degradation of the governance environment will put into question the interest of a number of donors to pursue budget support programs unless more transparency is restored in the budget process and public procedures.

84. **The risks associated to the implementation of the restructured portfolio are reasonably contained.** Bank's projects have shown to be relatively insulated from political interference and the few instances of fiduciary issues and ineligible expenditures are well documented and under a repayment plan. By and large project systems are working fine and PIUs have managed to maintain an acceptable control environment, even if in a number of cases financial management measures are in need of strengthening and will be addressed as part of the restructuring package. During the electoral period, heightened attention will be devoted to ensure that PIUs can work correctly and that politically-motivated staff changes would not be tolerated.

85. **The degradation of governance and the lack of formal dialogue at the political level is a source of risk**. A number of sectoral policies and reforms are at risk of reversal which could affect implementation of the portfolio and jeopardize future re-engagement. The Government may resort to expediency and opaque "deals" with private operators to extend its patronage for political interest and put at risk the viability of existing programs in some sectors. There is also a need to promote greater coordination within the international community and in particular to associate the new non-traditional donors (China, India, and Turkey) through the established consultation mechanisms, in an effort to have greater leverage and ensure consistency with established policies and legal frameworks.

86. **A situation where the international community splits over the decision to support the current transition government and the process to elections may leave the Bank's authorizing environment divided.** This could potentially pose a risk to our capacity to engage on new lending operations during the transition period as proposed by the ISN. However, the rapid deterioration of the socio-economic situation, the risk of increased institutional fragility and heightened security problems, makes the case for emergency interventions quite compelling in some sectors. The cost of inaction may become unbearable for the poor population to pay and considerably increase the cost of future re-engagement. Also, as the portfolio progressively shuts down, the Bank may need to confront a higher level of reputational risk in withdrawing from sectors where we have been the dominant financier in the face of the sharp deterioration of the situation and social distress.

Annex 1: ISN FY12-FY13 Results Framework and Changes to the Madagascar CAS 2009-2011 Results Framework[4]

CAS FY09-11	ISN FY12-13	
Previous CAS outcomes	**ISN Outcomes**	**World Bank Group interventions**
Pillar II: Improving access to, and quality of services to people	**ISN Pillar 1: Governance and Public Sector Capacity**	
A. Mobilization and use of public resources		
DROPPED 2.1. Improve the effectiveness and fairness of the revenue collection system • Improved tax administration performance as measured by increased revenue mobilization from 10.1% to 13.1% of GDP • More streamlined tax system through reduced tax exemptions. (Baseline will be established through the Tax Administration audit) **REVISED AND PARTIALLY CONTINUED 2.2. More efficient public expenditure management:** • 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) • Budget law implemented in a transparent manner (law and information on its execution is widely available to the public) • Public procurement conforms better to established rules as measured by audits • Streamlined expenditure management procedures are followed (as evidenced by audits) • Improved internal and external controls as measured by improvements in PEFA indicators (baseline assessment was carried out in 2006) **REVISED AND PARTIALLY CONTINUED 2.3. Improved public service delivery:** • Improved delivery of key public services (primary health, education, land titling) as measured by community scorecards or citizen report cards • Increased public resources managed by communes from 3 to 7 % • Sub-national governments operate according to clear legal and administrative framework	**1.1. IMPROVED AND BROAD UNDERSTANDING OF GOVERNANCE ISSUES** • PER provides framework for discussing improved management of public expenditures and outreach to the public for greater accountability • Governance Action Plan for better aid effectiveness and knowledge of governance issues in social sectors prepared and disseminated with Government and the public **1.2. IMPROVED PUBLIC SERVICE DELIVERY IN PILOT AREAS** • 34 communes have started decentralization pilots through the Local Development Fund (FDL) • Operational efficiency of 70 land tenure kiosks strengthened	Portfolio • PGDI (P103950) • PGRM (P076245) • EITI TF (P105735) Portfolio Restructuring • Restructuring of PGDI with a focus on public finances, social accountability, anti-corruption, land tenure. • Revision of PGRM to enhance participatory budgeting approaches in mining communes and the pursuit of the EITI initiative AAA Program • Governance in Health & Education • Governance Action Plan • Public Expenditure Review • Decentralization/Community Empowerment TA • Land TA Partnership • Maintain the strong donor coordination established around the Policy Notes Collection as a basis for consensus building on i) the Governance Action Plan and ii) the PER.

[4] Implementation of the CAS was suspended after only 1.5 yrs of implementation. The ISN matrix incorporates the original CAS expected outcomes, highlights those outcomes that are no longer valid (Dropped), and incorporates revised outcomes expected to be achieved during the ISN period.

CAS FY09-11	ISN FY12-13	
Previous CAS outcomes	**ISN Outcomes**	**World Bank Group interventions**
CAS Pillar I: Removing the bottlenecks to investment and growth in rural and urban areas		
REVISED AND PARTIALLY CONTINUED 1.1. Improved governance in natural resource sectors: • Issuance of licenses (mining, fishing, forestry) follows transparent rules according to anticorruption surveys and audits • Establishment of a transparent mechanism for revenue tracking as a result of Madagascar joining the EITI **1.2. Improved voice and accountability:** • Improved voice and accountability as measured by WBI Governance indicators	**1.3. IMPROVED COMMUNITY PARTICIPATION IN GOVERNANCE** • At least 2 mining communes have the capacity for participatory budgeting • Community score cards pilots in health and education, and ICT-based activities implemented to support access to information in 200 communes, in 4 selected Regions • Support for the EITI initiative to go through the validation process	
	ISN Pillar 2: Employment and Competitiveness	
REVISED AND PARTIALLY CONTINUED 1.3. Improved business environment: • Sustained improvements in business creation, interface with tax and customs authorities, and import-export regulations as measured against the baseline established in the 2005 ICA **REVISED AND PARTIALLY CONTINUED 1.4. Better economic outcomes in the "growth poles" areas:** • International tourist arrivals increased: Nosy Be: from 40,000 to 80,000; Fort Dauphin: from 13,000 to 30,000 • Number of new tourism jobs created: Nosy Be: 4,000, Fort Dauphin: 1,500 **REVISED AND PARTIALLY CONTINUED 1.5. Improved access to finance:** • Achieve 25% increase in private sector credit/GDP and 150% increase in leasing operations (IFC & IDA) • Increase number of beneficiaries of microfinance from 800,000 to 1 million (IFC & IDA) • More efficient payment system as measured by reduced settlement times for "remote" instruments from 21-60 days to 5-10 days **REVISED AND PARTIALLY CONTINUED 1.6. Increase competitiveness and diversification in agriculture:** • Competitive markets in inputs (fertilizer) as measured by increase in fertilizer use from 20,000 mt/year to 60,000 mt/year • Improved rice yields in irrigated project areas (in mt/ha): Andapa from 2.0 to 3.5; Maorvay from 2.0 to 3.5; Lac Alaotra from 3.5 to 5; Itasy from 3.0 to 4.5 • Increased diversification in irrigated project areas as measured by	**2.1. IMPROVED BUSINESS ENVIRONMENT** • PPP framework agreed with Government and private sector to promote private sector intervention in key sectors (agri-business, telecom, micro-finance, mining, ecotourism) • New geological map for Madagascar available. • 500,000 t of exports from Fort Dauphin Ehoala port by mid-2013 • Share of Households with access to potable water from 40% in 2009 to 75% in 2013 in Nosy Be and Fort Dauphin • Increase of the number of accounts at licensed financial institutions (bank and MFI) from 205,000 in 2008 (baseline) to 300,000 in 2013 **2.2. IMPROVED SUPPORT FOR PRODUCTIVITY IN AGRICULTURE** • 9,000 additional ha of rice under irrigated agriculture • 35,000 additional producers supported through 850 income-generating sub-projects	Portfolio: • PICOM (P094103) • PIC (P083351) • PSDR (051922) • FID (P113134) • PASEF (P109607) • Rural Transport (P073689) • BVPI (P07408 • PGRM (P076245) • EP3 (P074235) • PGRM (P076245) • PWSR (P095240) Portfolio Restructuring • Better integrate portfolio activities of PIC, PSDR, FID, PASEF, BVPI, EP3; concentrate in priority areas for higher impact, especially in the South • Refocus the PIC on 2 growth poles (Fort Dauphin and Nosy be) and develop joint projects with PSDR and FID • Restructure Telecom project to focus on "passive" infrastructure and extend backbone networks and mobile services to rural remote areas • Restructuring (APL3) and additional financing (APL2) for the transport sector to address emergency repairs, complete suspended works, launch studies and audits to assess the current state of infrastructure and institutional reforms

CAS FY09-11	ISN FY12-13	
Previous CAS outcomes	**ISN Outcomes**	**World Bank Group interventions**
increased areas dedicated to crops other than rice (from 40% to 60%) • 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 • Strengthened capacity of the Fisheries Administration as measured by an independent institutional audit (a baseline audit was carried out by PROFISH in 2006)		• Refocus PGRM on improving business information on mining sector, support for industrial and artisanal mining with regional integration • Refocus PWSR to improve knowledge and dialogue base to prepare future investments prepare future investments • Restructure Micro-finance project (PASEF) for increased access to financial services
REVISED AND PARTIALLY CONTINUED 1.7. Improved accessibility and reliability of roads: • Increase in sustainable rural access around Antananarivo and two selected secondary cities (1,550 km of additional enduring rural roads) • Improved road maintenance: 750 km of roads maintained annually under long term output based contracts and annual allocation from the Road Maintenance Fund **REVISED AND PARTIALLY CONTINUED 1.8. More efficient and reliable railway operations along the corridor between the capital and Toamasina port:** • 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 • Increased share of goods transported by rail on Northern Railway from 21% in 2006 to 32% in 2011 **DROPPED 1.9. Improved competitiveness of air transport:** • Reduced cost of air transportation of goods and people. Baseline will be established by end-2007	**2.3. ADDRESSING EMERGENCY REPAIRS AND ACCESSIBILITY OF TRANSPORT NETWORK** • 8 rural bridges rebuilt, emergency repairs on road/rail network	AAA Program • PPP framework • Regional growth • Education TA • Agriculture marketing Partnership Maintain strong coordination with i) key partners on policy reforms and investments (e.g. EU, ADB on transport), and ii) private sector on PPP framework and promotion.
REVISED AND PARTIALLY CONTINUED 1.10. Lower telecommunication costs and improved accessibility: • Reduce price of international bandwidth from US$,8000 today to below US$2,500 in 2011 • Increased number of connected localities by more than 50%	**2.4 INCREASED ACCESS TO ICT SERVICES FOR POOR COMMUNES** • 100 additional poor communes with communication and broadband access	
REVISED AND PARTIALLY CONTINUED 1.11. Improved efficiency of power supply: • Reduction of electricity losses from 23.7% today to 19% in 2011 • Improved electricity generation efficiency as measured by reduction in diesel generation over total generation from 31% today to 13% in 2011	**2.5. IMPROVED KNOWLEDGE AND TECHNICAL DIALOGUE FOR FUTURE INVESTMENTS IN THE ENERGY SECTOR** • Feasibility studies for future hydro-power investment sites completed	

CAS FY09-11	ISN FY12-13	
Previous CAS outcomes	**ISN Outcomes**	**World Bank Group interventions**
	ISN Pillar 3: Vulnerability and Resilience	
REVISED AND PARTIALLY CONTINUED 1.12. Better management of environment: • 6,000,000 ha established under System of Protected Areas of Madagascar up from 3,850,000 ha today • 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) • 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 investments • Forest and bush fires reduced as measured by reduction in surface of annually burned areas from 680,000 ha to 200,000 ha by 2011 • 40% increase in eco-tourist visits in National Parks (IFC) • Improved protection of priority marine areas as a result of their establishment as part of the System of Protected Areas	**3.1. CONTINUED PROTECTION OF THE ENVIRONMENT** • Continued protection of 32 national parks; • US$2.5 million generated from parks entrance fees and carbon finance; • 26,000 households benefitted from Social safeguard activities by mid 2013	Portfolio: • HIV/AIDS (P090615) • GFDR • EP3 (P074235) • FID (P113134)
	3.2. IMPROVED PROTECTION OF THE VULNERABLE • Poverty Assessment Report publicly disseminated and providing better understanding of poverty and inequality determinants and options • Safety Net Report publicly disseminated and providing basis for Social Protection system • 7.8 million person-days of employment created in cash for work program between November 2009 and July 2013;	Portfolio Restructuring • Better integrate portfolio activities of PIC, PSDR, FID, PASEF, BVPI, EP3 and concentrate in priority areas for higher impact, especially in the South • Restructuring and additional financing for an integrated HIV/AIDS, nutrition, basic health services package • Addressing disaster rehabilitation and likely climate change issues (GFDR)
REVISED AND CONTINUED 1.13. Better preparedness to deal with natural disasters: • Climate-proof standards followed in areas covered by Bank projects	**3.3. IMPROVED PREPAREDNESS TO DEAL WITH NATURAL DISASTERS** • Risk-reduction measures and cyclone-proof housing construction norms adopted in vulnerable communities	AAA Program • Health TA • Social Protection • Poverty/Inequality Assessment • Environment Country Analysis
Pillar II: Improving access to, and quality of services to people		Partnership • Maintain strong coordination with key partners on implementation of complementary programs: e.g.. i) UN, ADB on preparation of an integrated development program for the South, ii) AFD on health, iii) UN system on safety nets, nutrition and education.
B. Social Services		
DROPPED 2.4. Improved access to, and quality of, primary and post primary education: • Increased primary completion rate from 57% to 75% • Improved student/teacher ratio from 52 to 45 • Number of books per subject per child from 0.9 to 1 • Better learning outcomes as a result of modernization and diversification of programs and curricula measured by testing on main subjects	**3.4. Improved monitoring of education sector performance** • Tools to monitor changes in the number of out-of-schools and targeting mechanisms adopted and implemented	New Lending • Health/nutrition integrated support • Basic Education support

CAS FY09-11	ISN FY12-13	
Previous CAS outcomes	**ISN Outcomes**	**World Bank Group interventions**
REVISED AND PARTIALLY CONTINUED 2.5. More effective delivery of health services: • Increased utilization of primary health care (baseline: 0.41 contact/inhabitant/year in 2006) and first level referral (baseline: 40.8% in 2006) • Increased availability of essential drugs as measured by the Ministry of Health administrative data and surveys • 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) • Decreased hospital mortality rate from 4% for the first referral level and 5.3% for the second referral level (2005)	**3.5. IMPROVED MOTHER AND CHILD HEALTH SERVICES AND HIV PREVENTION** • Pregnant women tested positive and treated for syphilis during prenatal consultations in project areas, from 179 (2010 baseline) to 1124 (in 2013) • Number of women receiving antenatal care during a visit to a health provider in project areas, from 14,000 (2010 baseline) to 37,500 (in 2013) • Number of children immunized in project areas, from 52,800 (2010 baseline) to 67,000 (in 2013)	Possible New Lending (external shock) • Emergency rehabilitation, livelihood restoration, safety nets
REVISED AND PARTIALLY CONTINUED 2.6. Incidence of HIV/AIDS and sexually transmitted infections kept under control: • 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%.	• Percentage of target population (commercial sex workers, military and youth by gender) reporting the use of condom in their last act of sexual intercourse with a non-regular partner in the last 12 months, from: - 84.8% (2010 baseline) to 87% (in 2013) for commercial sex workers. - 63.6% (2010 baseline) to 72% (in 2013) for military. - 40.4% (2010 baseline) to 46% (in 2013) for youth male; - 43.8% (2010 baseline) to 48% (in 2013) for youth female.	
ACHIEVED 2.7. 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).	**3.6 IMPROVED NUTRITION FOR CHILDREN UNDER TWO YEARS OF AGE IN TARGET AREAS.** • Children 0-24 months obtaining monthly adequate minimum weight in project areas from 34,000 (2010 baseline) to 35,800 (in 2013)	

Annex 2: Proposed Portfolio Restructuring

Operation Name	Project ID#	Age - #Years	DO/IP Ratings	Closing Date	Net commitment (US$ M)	Undisbursed (US$ M) as of September 30, 2011	Within Portfolio cancellations and reallocation of funds (US$ M)
Minor restructuring - Projects that will need to revisit their approach, re-orient their activities geographically, reach-out and complement other projects.							
Rural Development	P051922	9.9	MS/MS	12/31/2012	73.8	13	
Watershed	P074086	4.2	MS/MS	12/31/2012	30.0	20	
Food security	P113134	2.3	S/S	6/30/2013	40.0	15	
Environmental III	P074235	6.9	MS/S	12/31/2011	40.0	1	
Environmental III AF	P107484	0		12/31/2014	42.0	41	
Mineral resources	P076245	7.9	MS/MS	6/30/2012	38.2	4	
ACGF Finance	P109607	2.7	**U/U**	12/31/2012	15.0	14	
Rural Transport	P073689	8.3	MS/S	12/31/2012	77.0	20	
Major restructuring - Projects that will need to restructure their components and/or objectives, cancel funds, receive portfolio funds through an additional financing operation, reallocate funds internally, extend closing dates and revisit results framework.							
Growth Poles	P083351	5.9	MS/MS	12/31/2011	129.8	9	**-5**
Growth Poles AF	P083351	3.5	MS/MS	12/31/2012	40.0	32	
Power/Water	P095240	4.7	**U/U**	4/30/2011	10.0	5	
Governance II	P103950	2.8	**U/U**	8/31/2012	40.0	26	**-8**
Regional Telecom	P094103	4	MS/MS	4/30/2012	30.0	30	**-5**
HIV AID II	P090615	5.5	MS/S	12/31/2011	30.0	5	**+6**
Transport Infrastructure	P082806	7.3	MS/MS	6/30/2012	165.6	2	**+12**
Trust Funds							
Extractive industry	P105735			10/29/2011	0.35	0.28	
Education for Growth	P111120			12/6/2012	0.80	0.70	
PHRD-Joint Health Support	P106675			2/29/2012	0.66	0.46	
Environmental GEF	P074236			12/31/2011	9.00	0.39	
AF Environmental GEF	P113976			12/31/2014	10.00	10.00	
Climate Change	P110453			9/30/2012	1.14	0.75	
Education-Impact of the crisis	P119430			11/30/2012	0.45	0.45	
GEF-Irrigation & Watershed	P088887			12/31/2012	5.90	5.90	
PHRD-Grant/rice production	**to be signed**				12.65	12.65	

Madagascar Portfolio Restructuring

Second Multisectoral STI/HIV/AIDS Prevention Project
P090615 – Credit IDA 4104-0
Rationale for Cancellation and Recommitment of IDA Resources

I. Rationale for Restructuring

1. While there has been significant progress in health over the past decade, prior to the ongoing political crisis, Madagascar was lagging behind in certain key health indicators, namely for pregnant women and children under five. Maternal mortality was estimated at 498 per 100,000 live births, far from the MDG goal of 149 per 100,000. In addition to protecting the pregnant woman, delivery of maternal health interventions are indicative of a number of other functionalities of a health service delivery system and in the case of Madagascar, are extremely important because the country is facing rapid population growth. Children under five continue to face a high morbidity risk due to poor nutrition status of both pregnant women and children, with 50 percent of children under five stunted and 27 percent of pregnant women severely underweight and anemic. Although HIV/AIDS prevalence is low, sexually transmitted infections (STIs) are alarmingly high. All of these issues disproportionately affect the poor. Due to the crisis, there has been increased fragmentation within the sector causing a serious disruption of health service delivery. This is resulting in a severe deterioration in the well-being of the population, especially of the most vulnerable and at risk groups. There is an urgent need to increase the utilization of health and nutrition services by these segments of the population.

2. To this end, it is proposed to prepare a Level I restructuring and an additional financing for the second Multisectoral STI/HIV/AIDS Prevention Project (PMPS II). This would expand the scope of the Project to deliver an integrated package of the most essential and cost-effective health, nutrition and HIV/AIDS interventions to vulnerable groups, including pregnant women and children under five as well as the most-at-risk populations for HIV/AIDS. The restructured PMPS II would also facilitate an integration of health, nutrition and HIV/AIDS given the global move from vertical disease programs to integrated programs. PMPS II is the most appropriate instrument given the current epidemiological, technical and policy context in Madagascar: i) while HIV prevalence is low, STI prevalence is extremely high, particularly among pregnant women; and ii) given the long history of support and leading role in donor dialogue in health, additional financing under the PMPS II allows the Bank to remain engaged in the sector during this critical time. Also, as the only active health project in the portfolio, it is the only entry point to provide additional financing for an integrated package of health services in accordance with the OPMemo on Cancellation and Recommitment of IDA Resources.

II Main Actions Required/Funding Request

3. US$6 million is required in additional financing to support the delivery of an integrated package of health, nutrition and HIV/AIDS services to 16 districts in four regions with the poorest health outcomes while supporting targeted interventions to HIV/AIDS high-risk groups across the country. Several changes are thus being proposed:

- Expand the PDO to allow for the delivery of an integrated package of health, nutrition and HIV/AIDS interventions at the community and health center levels to the poorest and most-at-risk populations;
- Focus on regions with the poorest health outcomes and the most vulnerable populations;
- Use a proven performance-based financing approach with NGOs delivering interventions directly to communities and supporting health centers to ensure better health outcomes and improve accountability and transparency via high quality independent technical audits and social accountability instruments; and
- Extend the closing date to December 31, 2013 to provide adequate time for implementation of the activities and analysis of nationally representative data to inform the health policy dialogue.

III. Expected Results

4. NGO contracts will be in place delivering an integrated package of services[5] at community and health center levels in targeted project areas. Expected results are a continued improvement in STI/HIV/AIDS knowledge and behavior indicators among at risk groups and an increase in the utilization of basic health and nutrition services in project areas, including pre-natal care, growth monitoring, vitamin A supplementation, vaccination and family planning, among others.

5. The proposed new PDO is to support GOM efforts to (i) increase access to quality HIV/AIDS related services among targeted populations; and (ii) increase utilization of quality maternal and child health and nutrition services in project areas. Key PDO level indicators and expected targets are indicated in the table below. The full list will be in the Results Framework of the additional financing document.

Indicator	Baseline 2010	2012	2013
Pregnant women tested positive and treated for syphilis during prenatal consultations in project areas (number)	179	1093	1124
Percentage of target population* reporting the use of a condom in their last act of sexual intercourse with a non-regular sexual partner in the last 12 months	55.2%	57%	58.5%
Pregnant women receiving antenatal care during a visit to a health provider in project areas (number);	13,925	36,442	37,462
Children immunized in project areas (number)	52,820	65,109	66,932

* Target population has three subgroups: Sex Workers, Youth, and Military. The target for "Military" has been selected for purposes of monitoring the ISN.

[5] Integrated package of services has been defined.

Madagascar Portfolio Restructuring

Transport Infrastructure Investment Project – APL III
P082806 - Credit IDA 3836-0 & 3836-1
Rationale for Cancellation and Recommitment of IDA Resources

I Rationale for Restructuring

1. The project's overall objective is to assist the Recipient in the rehabilitation of its major transport infrastructure in order to reduce transport costs and to facilitate trade. The project was approved by the Board on December 8, 2003 and an Additional Financing on May 22, 2007. In November 2011, the disbursement rates for each credit were equal to the commitment rates, i.e. 97 percent for the initial credit, and 96 percent for the Additional Financing.

2. With the enactment of Operational Policy (OP) 7.30 (*Dealing with de facto Government*) in March 2009, disbursement was suspended, except for payments of arrears incurred before March 17, 2009, as well as PIUs and fiduciary funding. Consequently, ongoing contracts (works on port of Toliary, National Road 2 -RN2-, Andasibe railway station rehabilitation, and studies for bridges rehabilitation) were interrupted before their completion. On May 11, 2011, the Bank authorized resumption of disbursements for the entire Madagascar portfolio and the project was able to pay for eligible arrears related to completed works, goods, and services executed since March 17, 2009 while continuing to pay for PIUs and fiduciary costs.

II Main actions required and funding request

3. An Additional Financing of US$12 million is envisaged in accordance with the OP Memo on Cancellation and Recommitment of IDA Resources as part of the ongoing portfolio restructuring exercise to finance urgent transport infrastructure needs, especially to address natural disasters (as the country is located in a geographical zone which is prone to cyclones) and to preserve infrastructure that may cause accidents or traffic disruption. Therefore, the project will finance: (i) emergency works to reinforce three bridges which were about to be rehabilitated in 2009 but were left in disrepair since the EU financing was cancelled due to the crisis; (ii) emergency works for the replacement of 25 km of rail track on the critical curves between Fanasana and Ambohimanambola including the acquisition of rail accessories to reinforce the existing tracks; and (iii) emergency works to repair cyclone damages on National Roads on which the traffic may be cut if nothing is done.

Activities	**Estimated Amount (US$ millions)**
Emergency works to reinforce 3 bridges on RN4 and RN6	4.0
Madarail emergency works and equipment acquisition	5.0
Cyclone damages on RN12 & RN25	3.0
TOTAL	**12.0**

4. Once the principle of an Additional Financing is authorized, the project team will finalize the restructuring package, including a request for closing date extension (from June 30, 2012 to June 30, 2013) to allow for the due completion of the scheduled works and equipment acquisitions.

III. Expected results

5. All the works scheduled to be financed (bridges reinforcement and cyclone damages reparations) would help to preserve existing infrastructure pending their complete rehabilitation once new financing becomes available. Such activities will have a large impact for limited funding without triggering significant safeguards issues. The RN4 and RN6 are the only access to the Western and the Northern regions and it is critical to preserve their traffic.

6. The investment on the Northern railway network will ensure sustainability of earlier investment[6], through the continuation of technical and operational improvements[7]. Madarail has implemented Bank financed project with consistent satisfactory ratings both from the technical and the fiduciary perspectives. However, with the change in Madarail's main shareholder in July 2011, the Bank requested guarantees that this change would not impact on the company's governance, operating performance, and financial equilibrium. Therefore, investments for Madarail under the proposed Additional Financing are subject to its new majority shareholder paying US$1.85 million for Madarail cash flows before the end of 2011.

7. The Madarail component is expected to continue to demonstrate social and economic benefits for the country. The company paid US$12 million in taxes between 2003 and 2011 and its economic impact during the same period is estimated at US$90 million, which represent 2.2 times the value of the amounts invested by the Government until 2010. Today, Madarail's activities have a substantial impact on the country's economic competitiveness : (i) the resumption of rail transport has positively impacted on the transport cost of the more than 2 million tons of imports/exports cargo transiting yearly through the port of Tamatave; (ii) the rail is relieving the most heavily-used road of the country - the RN2 - from heavy cargo (mining products; fuel; cement; etc.), which involves significant economy on road maintenance costs[8]; (iii) the mine project of Ambatovy (>US$6 billion of investments) is heavily dependent on Madarail's operation for transferring its products between the port of Toamasina and its plant; (iv) the rail is the most economic and efficient mean of transport for the Kraoma company which is exporting chromes from Ambatondrazaka to the port of Tamatave; (v) Madarail plays a key role in the implementation of a multimodal plateform in the capital suburb, which will positively impact the urban development of the capital city; and (vi) Madarail has a significant social impact with 2,700 direct and indirect employment and through its services for remote populations along the railway.

[6] The Bank already financed the rehabilitation and/or the reinforcement of 412 km of critical rail network sections, out of a total network length of 687 km, in a first investment plan (2006-2010), amounting US$50 million. The acquisition of 8,000 tons of rail track has been already identified in a second investment plan (2012-15, estimated at US$66 million) which was about to be financed under a Bank's Project almost negotiated when Bank's operations were suspended in 2009.

[7] Freight volumes were multiplied by six between 2003 and 2010; current rate of derailment is 0.23 out of 10 trains, which is four times less than in 2008; and almost all the technical PDO objectives indicators were either achieved or even surpassed, as detailed in the last ISR of October 2011.

[8] The costs of overloaded vehicles on road states were estimated at US$40million per year in 2008.

Annex 3: Selected Indicators* of Bank Portfolio Performance and Management

As of 10/10/2011

Indicator	2009	2010	2011	2012
Portfolio Assessment				
Number of Projects Under Implementation [a]	13	13	11	10
Average Implementation Period (years) [b]	5.4	6.4	7.9	7.7
Percent of Problem Projects by Number [a, c]	46.2	53.8	36.4	10.0
Percent of Problem Projects by Amount [a, c]	49.4	48.9	21.9	4.9
Percent of Projects at Risk by Number [a, d]	46.2	69.2	54.5	40.0
Percent of Projects at Risk by Amount [a, d]	49.4	75.2	36.8	28.3
Disbursement Ratio (%) [e]	31.3	10.5	33.4	5.7
Portfolio Management				
CPPR during the year (yes/no)	No	No	No	Yes
Supervision Resources (total US$ 000)	2,211	1,981	1,720	1,455
Average Supervision (US$ 000/project)	110	99	101	97

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	80	5
Proj Eval by OED by Amt (US$ millions)	2,365.0	309.3
% of OED Projects Rated U or HU by Number	41.3	40.0
% of OED Projects Rated U or HU by Amt	39.2	18.6

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

b. Average age of projects in the 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 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 4: IFC - Investment Operations Program

	2009	2010	2011	2012*
Original Commitments (US$m)				
IFC and Participants	6.35	21.60	14.28	0.66
IFC's Own Accounts only	6.35	21.60	14.28	0.66
Original Commitments by Sector (%)- IFC Accounts only				
FINANCE & INSURANCE	60.63	100	100	100
UTILITIES	39.37			
Total	100	100	100	100
Original Commitments by Investment Instrument (%) - IFC Accounts only				
Equity			5.24	
Guarantee	60.63	100	94.76	100
Quasi loan	39.37			
Total	100	100	100	100

* Data as of October 01, 2011

Annex 5: Summary of Non-lending Services

As of 10/01/2011

Product	Completion FY	Cost (US$000)	Audience [9]	Objective[10]
Recent Completions				
Labor Market review	2011	146	G, D, B, P	I, BCB
Urban Challenge	2011	224	G, D, B, P	I
Ethanol as a Household Fuel	2011	613	G	I
Country Status Report on health	2010	100	G, D, B, P	I
Social Accountability	2011	1000	G, D, B, P	DI
Policy Notes-Collection	2011	465	G, D, B, P	SP
Fishery Policy Advice	2010	100	G	I
Investment Climate Assessment	2010	51	G, D, B, P	I
Adaptation and Risk Management	2010	882	G	DI
Financial Sector Strategy & Dvpt	2010	244	G	DI
MFI Credit Bureau	2010	36	G	DI
Underway				
Agricultural Markets ESW	2012	192	G, D, B, P	I
Public Expenditure Review	2012	88	G, D, B, P	I, BCB
Assessment of Social Protection	2012	93	B	I
Country Environmental Analysis	2012	650	G, D, B, P	I, BCB
PPP-policy Note	2012	78	G	I
Governance Review II	2012	85	G, D, B, P	I
Support to Land Reform Process	2012	12	G, D, B, P	DI
Education Sector-TA	2012	100	G, D, B, P	DI
Interim Strategy Note	2012	80	G, D, B, P	Country Strategy
Planned				
Decentr. & Community Empower.	2013	200	G	I
TA on Health Challenges & Priorities	2012	80	G, D, B, P	DI
Policy Dialogue in Education	2012	100	G, D, B, P	DI
Poverty & Inequality Assessment	2013	230	G, D, B, P	Poverty Assessment

[9] Government (G), Donor(D), Bank (B), Public Dissemination (P)

[10] Inform Lending/Government Policy/Public (I)– Develop Institutions(DI) – build Client Capacity (BCB)-Develop Sectoral Policy (SP)

Annex 6: Madagascar - Key Economic Indicators

(As of 11/22/2011)

Indicator	Actual									Projected		
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
National accounts (as % GDP at current market prices)												
Gross domestic product	100	100	100	100	100	100	100	100	100	100	100	100
Agriculture[a]	32	29	29	28	27	26	25	29	28	30	29	29
Industry[a]	14	15	16	16	16	16	16	16	16	14	15	15
Services[a]	54	55	55	56	56	58	59	55	56	56	56	57
Total Consumption	96	98	95	95	91	92	86	93	88	86	83	80
Gross domestic fixed investment	13	16	23	22	25	30	44	32	19	25	25	26
Government investment	5	8	12	9	11	7	7	4	4	4	5	6
Private investment (includes increase in stocks)	9	10	12	13	15	23	37	28	15	21	20	20
Exports (GNFS)[b]	16	21	35	28	30	30	27	25	26	27	30	32
Imports (GNFS)	25	35	53	46	46	52	57	52	41	38	38	38
Gross domestic savings	4	2	5	5	9	8	14	9	16	14	17	20
Gross national savings[c]	8	13	15	7	12	12	18	13	20	17	17	18
Memorandum items												
Gross domestic product (US$ million at current prices)	4397	5474	4364	5039	5515	7343	9424	8590	8837	10072	10570	11205
Gross national income per capita (US$, Atlas method)	..	..	..	..	310	350	430	440	440			
Real annual growth rates (% , calculated from 1984 prices)												
Gross domestic product at market prices	-12.7	9.8	5.3	4.6	5.0	6.2	7.1	-3.7	0.5	1.0	2.5	5.0
Gross Domestic Income	-11.9	9.5	8	..	..	..	..	..	..			
Real annual per capita growth rates (% , calculated from 1984 prices)												
Gross domestic product at market prices	-15.2	6.7	2.3	1.7	2.2	3.4	4.3	-6.5	-2.2	-1.8	-0.3	2.2
Total consumption	-6.6	7.7	-0.8	-0.5	-2.5	-1.3	-0.5	2.4	-1.7	0.4	-2.5	-1.1
Private consumption	-5.6	5.9	0.6	-1.1	-1.3	-5.0	0.1	-6.2	-1.1	-0.8	-3.0	-1.3

(Continued)

Madagascar – Key Economic Indicators

(Continued)

Indicator	2002	2003	2004	2005	2006	2007	2008	2009	2010	Projected 2011	2012	2013
Balance of Payments (US$m)												
Exports (GNFS)[b]	730	1261	1423	1398	1632	2234	2605	1913	2100	2564	3003	3337
Merchandise FOB	499	941	997	832	967	1237	1309	1204	1373	1593	2023	2326
Imports (GNFS)[b]	1029	1752	2070	2106	2318	3412	4790	3935	3161	3558	3735	3979
Merchandise FOB	620	1131	1436	1449	1532	2238	3212	3116	2745	3231	3286	3437
Resource balance	-299	-491	-647	-708	-685	-1177	-2185	-2022	-1061	-994	-732	-641
Net current transfers (including official current transfers)	99	303	330	204	243	357	474	306	432	490	517	508
Current account balance (after official capital grants)	-272	-268	-397	-584	-525	-876	-1761	-1807	-722	-768	-783	-869
Net private foreign direct investment	9	13	53	51	283	740	1135	1269	818	282	224	234
Liabilities	51	57	-1205	202	-1904	559	1168	919	358	360	453	450
Official Liabilities	62	67	-1201	177	-1892	237	381	214	63	298	379	401
Private liabilities	-11	-10	-4	25	-12	322	787	705	295	62	74	49
Long-term loans (net)	..	..	..	..	..	..	..	..	..	331	414	495
Official	158	182	484	177	-1893	237	381	63	63			
Private	..	..	..	14	-13	63	79	462	-51			
Other capital (net, including errors and omissions)	..	..	..	26	-192	-209	23	-86	-115	66	-130	-130
Change in reserves	53	-17	-18	-16	-256	-227	-104	24	-68	-49	-84	-16
Memorandum items												
Resource balance (% of GDP at current market prices)	-7	-9	-15	-14	-12	-16	-23	-24	-12	-10	-7	-6
Real annual growth rates (1984 prices)												
Merchandise exports (FOB)	-50.0	87.8	0.3	NA	NA	NA	NA	NA	NA			
Primary	-34.9	12.2	.24.4	NA	NA	NA	NA	NA	NA			
Manufactures	.58.8	155.7	9.2	NA	NA	NA	NA	NA	NA			
Merchandise imports (CIF)	-29.8	58.3	3.2	NA	NA	NA	NA	NA	NA			
Public finance (as % of GDP at current market prices)[e]												
Current revenues	8.3	12.3	16.0	12.3	12.7	12.3	14.1	11.3	12.4	12.3	12.3	10.5
Current expenditures	8.8	10.8	12.5	10.5	11.1	11.0	10.9	10.8	10.1	11.2	10.6	10.4

(Continued)

Madagascar – Key Economic Indicators (Continued)

Indicator	Actual									Projected		
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Current account surplus (+) or deficit (-)	-0.5	1.4	3.5	1.9	1.6	1.3	3.2	0.5	2.4	1.2	1.7	0.2
Capital expenditure	4.8	7.8	12.5	10.3	10.2	7.6	7.8	4.5	4.1	3.5	4.7	6.0
Foreign financing	3.2	3.0	6.4	3.8	-35.3	2.2	3.0	0.7	0.7	0.0	0.2	0.2
Monetary indicators												
M2/GDP (at current market prices)	26.2	25.1	21.3	18.0	19.2	20.4	19.7	20.9	20.8	22.5	24.2	22.8
Growth of M2 (%)	7.1	8.2	23.8	4.6	24.9	24.2	12.6	10.5	8.3	11.4	13.6	11.0
Private sector credit growth / total credit growth (%)	-5	96.9	644	249	101	101	100	84	110	98	78	114
Price indices(1984 =100)												
Merchandise export price index	126	127	134	..	..	..	..	..	..			
Merchandise import price index	111	128	158	..	..	..	..	..	..			
Merchandise terms of trade index	114	98.9	84.8	..	..	..	..	..	..			
Real exchange rate (US$/LCU)f	58.7	56.3	39.3	..	..	..	..	..	..			
Real interest rates												
Consumer price index (% growth rate)	16.2	-1.1	14	18.4	10.8	10.3	9.2	9	9.25	8	7.5	6.0
GDP deflator (% growth rate)	15.3	2.8	14.3	18.3	11.5	9.6	9.2	8.3	9.2	10.3	8.5	5.8

a. If GDP components are estimated at factor cost, a footnoote indicating this fact should be added.

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Should indicate the level of the government to which the data refer.

f. "LCU" denotes "local currency units." An increase in US$/LCU denotes appreciation.

Madagascar – Selected Indicators Table

Base-case (most likely) projection

	Actual								Projected			
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Part A: Main Macro Aggregates												
Annual growth rates, calculated from constant 1984 price data												
GDP (mp) per capita	-15.2	6.7	2.3	1.7	2.2	3.4	4.3	-6.5	-2.2	-1.8	-0.3	2.2
Total consumption per capita	-6.6	7.7	-0.8	-0.5	-2.5	-1.3	-0.5	2.4	-1.7	0.4	-2.5	-1.1
GDP at market prices	-12.7	9.8	5.3	4.6	5.0	6.2	7.1	-3.7	0.5	1.0	2.5	5.0
Total consumption	-4.0	10.7	1.9	2.3	0.2	1.5	2.3	-0.3	1.0	3.0	0.0	1.4
Private consumption	-3.0	8.9	3.4	1.6	1.4	-2.4	2.9	-3.5	0.5	1.0	2.0	5.0
Gross domestic investment (GDI)	-37.5	48.9	27.9	-1.3	19.3	30.8	54.3	-32.4	-12.6	-16.2	4.3	11.8
Gr.dom.Fixed investment (GDFI)	..	..	..	..	..	..	..	..				
Exports (GNFS)	-45.9	39.1	9.8	2.2	17.2	32.7	-3.3	-4.9	-1.7	4.5	23.1	13.2
of which Goods	..	..	..	..	..	..	..	..				
Imports (GNFS)	-25.0	56.7	8.9	-8.8	4.9	28.3	26.1	-12.1	-34.6	-5.0	5.6	7.8
of which Goods	..	..	..	..	..	..	..	..				
Savings-investment balances, as percentage of GDP												
Gross Domestic investment	11.3	15.4	18.7	17.6	20.0	24.7	35.5	25.0	20.6	17.1	17.0	18.2
of which Government investment	3.3	6.8	8.8	7.3	8.6	5.6	5.9	3.2	2.7	2.3	3.1	4.1
Foreign savings	..	..	..	..	..	..	..	..				
Gross national savings	..	..	..	..	..	..	..	..	..	..	..	..
Government savings	..	..	..	..	..	..	..	..				
Non government savings	..	..	..	..	..	..	..	..				
Gross domestic savings	4.5	3.7	6.7	8.8	12.7	16.9	17.6	14.7	21.1	19.5	23.1	25.7
Other												
GDP inflation	15.2	2.8	14.3	18.3	11.5	9.6	9.2	8.3	9.2	10.3	8.5	5.8
Annual average exchange rate (US$/LCU)	1366	1238	1869	2003	2142	1874	1708	1956	2090	2199	2351	2454

(Continued)

Madagascar – Selected Indicators Table

(continued)

	Actual								Projected			
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Part B: Government Finance Indicators												
Percentage of GDP												
Total revenues, of which	9.6	14.9	20.3	16.7	59.4	16.0	16.7	11.1	12.2	10.8	10.3	10.1
Tax revenues	9.7	6.8	8.3	8.8	8.6	9.2	9.8	12.5	10.5	10.3	9.8	9.6
Total expenditures, of which	14.7	19.0	25.1	21.2	21.3	18.7	18.7	15.3	12.6	13.3	14.5	15.5
Consumption	7.1	8.9	8.1	7.1	8.2	8.3	9.4	8.0	7.7	8.2	8.3	8.5
Deficit(-)/Surplus(+)	-5.7	-4.9	-5.7	-4.3	37.7	-2.9	-2.2	-2.8	-0.4	-1.3	-2.3	-2.8
Financing:	5.1	4.9	5.7	4.3	-37.7	2.9	2.2	2.8	0.4	1.3	2.3	2.8
Foreign	3.2	3.0	6.4	3.8	-35.3	2.2	3.0	0.7	0.4	0.0	0.2	0.2
Monetary sector	2.4	0.1	-2.6	-1.1	-3.0	0.2	-0.6	1.9	-1.2	-1.6	-0.4	-0.5
Other domestic	0.2	1.8	2.0	1.6	0.6	0.4	0.7	0.2	1.1	2.9	2.5	3.1
Other												
Total Debt/GDPmp	91.5	97.4	91.8	83.2	38.4	33.2	25.0	28.2	32.2	27.3	24.5	22.2
Total interest payments/Tax revenues	0.1	0.2	0.4	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Part C: Debt & Liquidity Indicators												
Total DOD and TDS												
DOD (US$ millions)	4511	4944	3788	3490	1488	1703	2086	2244	2416	2538	2598	2613
DOD / GDPmp ratio	1.3	1.3	1.3	0.7	0.3	0.2	0.2	0.3	0.3	0.3	0.3	0.2
TDS (US$ millions)	63	69	82	79	69	22	24	78	83	71	76	77
TDS / exports (XGS) ratio	0.12	0.08	0.09	0.06	0.04	0.01	0.01	0.04	0.04	0.03	0.03	0.02
Gross reserves (mnths' imprts G&S)	..	..	..	3	2.8	2.8	2.7	3	4	4	4	3
Part D: External Financing Plan												
(US$, millions)												
Official capital grants	45.3	100	127	219	2577	269	246	87.5	74.4	168.2	182.1	190.9
Private investment (net)	321	352	393	680	813	1864	3484	2374	1322	568.1	703.4	748.8
Net Long term borrowing excl IMF	..	..	..	..	..	..	..	..				
Adjust. to scheduled debt service	..	..	..	..	..	..	..	..				
All other capital flows	..	..	..	..	..	..	..	..				
Financing Requirements (incl IMF)	..	..	..	..	..	..	..	..				
of which current account deficit	..	..	..	..	..	..	..	..				

Annex 7: Key Exposure Indicators
(as of 6/28/2011)

Indicator	Actual									Projected		
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total debt outstanding and disbursed (TDO) (US$m)[a]	4511	4944	3788	3490	1488	1703	2086	2244	2416	2538	2598	2613
Net disbursements (US$m)[a]	132	167	125	..	..	..	..	160	433	175	71	11
Total debt service (TDS) (US$m)[a]	63	69	82	79	69	22	24	78	83	71	76	77
Debt and debt service indicators (%)												
TDO/XGS[b]	310	597	388	250	91	76	80	117	115	101	88	81
TDO/GDP	92	103	91	69	27	23	22	26	28	29	26	24
TDS/XGS	5	8	5	6	4	1	1	4	4	3	3	2
Concessional/TDO	67	69	72	84	67	70	72	75	76	76	77	78
IBRD exposure indicators (%)												
IBRD DS/public DS	0	0	0	..	..	..	..	..	..			
Preferred creditor DS/public DS (%)[c]	55.7	58	61.2	..	..	..	..	..	..			
IBRD DS/XGS	0	0	0	..	..	..	..	..	..			
IBRD TDO (US$m)[d]	0	0	0	..	..	..	..	..	..			
Of which present value of guarantees (US$m)												
Share of IBRD portfolio (%)	0	0	0	..	..	..	..	..	..			
IDA TDO (US$m)[d]	1652	1975	2269	2298	636	865	1066	1109	1268	1356	1372	1365
IFC (US$m)	0	0	0									
Loans	0	0	0									
Equity and quasi-equity /[c]	0	0	0									
MIGA												
MIGA guarantees (US$m)	1.3	2.1	1.4									

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.
b. "XGS" denotes exports of goods and services, including workers' remittances.
c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.
d. Includes present value of guarantees.
e. Includes equity and quasi-equity types of both loan and equity instruments.

Annex 8: Operations Portfolio (IBRD/IDA and Grants)

As of 10/11/2011

Closed Projects 97

IBRD/IDA *

Total Disbursed (Active)	634.53
of which has been repaid	0.00
Total Disbursed (Closed)	964.16
of which has been repaid	111.30
Total Disbursed (Active + Closed)	1,598.68
of which has been repaid	111.30
Total Undisbursed (Active)	193.46
Total Undisbursed (Closed)	0.01
Total Undisbursed (Active + Closed)	193.46

Active Projects

Project ID	Project Name	Last PSR Supervision Rating: Development Objectives	Last PSR Supervision Rating: Implementation Progress	Fiscal Year	Original Amount in US$ Millions: IBRD	IDA	GRANT	Cancel.	Undisb.	Difference Between Expected and Actual Disbursements[a/]: Orig.	Frm Rev'd
P113976	MG-Additional Financing Fi	#	#	2011			10				
P113134	MG-Emerg. Food Sec. & R	S	S	2009		40			15.2942	10.75382	12.95382
P074235	MG-Env Prgm 3 (FY04)	MS	S	2004		82			42.88976	0.1900667	
P074236	MG-GEF Env Prgm 3 (FY0	MS	S	2004			9		0.391832	0.3918322	
P088887	MG-GEF Irrigation & Water	MU	MS	2009			5.9				
P103950	MG-Governance & Inst. De	U	U	2008		40			26.57317	21.056098	
P083351	MG-Integ Growth Poles	MS	MS	2006		169.8			41.64183	-0.48476	15.78443
P074086	MG-Irrigation & Watershed	MS	MS	2007		30			20.58707	18.616707	
P076245	MG-Mineral Res Gov SIL (F	MS	MS	2003		40			3.731714	-7.321041	
P090615	MG-MultiSec STI/HIV/AIDS	MS	S	2006		30			4.763122	3.2453154	
P051922	MG-Rural Dev Supt SIL (FY	MS	MS	2001		119.05		1.22763138	13.22332	-27.61024	2.389763
P073689	MG-Rural Transp APL 2 (F	MS	S	2003		80			22.87171	11.115768	7.035768
P082806	MG-Transp Infrastr Invest P	S	MS	2004		165.6			1.879552	-21.45753	1.118902
Overall Result						796.45	24.9	1.22763138	193.8473	8.4960435	39.28269

Annex 9: Madagascar - IFC Program
Committed and Disbursed Outstanding Investment Portfolio

As of 10/31/2011
(US$ Million)

		Committed					Disbursed Outstanding				
FY Approval	Company	Loan	Equity	**Quasi Equity	*GT/RM	Partici pant	Loan	Equity	**Quasi Equity	*GT/RM	Partici pant
2007/11	Abm	0	0.55	0	0	0	0	0.5	0	0	0
1991	Bni	0	2.09	0	0	0	0	2.09	0	0	0
2009	Bni leasing	0	0.1	0	0	0	0	0.1	0	0	0
8/11/2000	Boa-m	0	3.07	0	15	0	0	3.05	0	9.3	0
2004	Bp madagascar	0	4.35	0	0	0	0	2.33	0	0	0
2007	Celtel madagasca	46	0	0	0	0	30	0	0	0	0
2007	Mc madagascar	0	0.49	0	3.4	0	0	0.49	0	1.11	0
Total Portfolio:		**46**	**10.65**	**2.5**	**18.4**	**0**	**30**	**8.56**	**0**	**10.41**	**0**

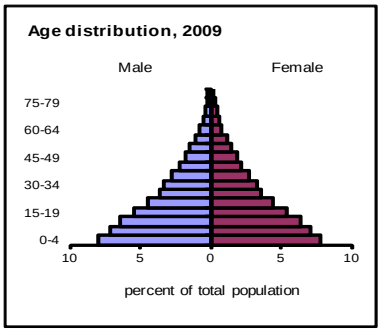
* Denotes Guarantee and Risk Management Products.
** Quasi Equity includes both loan and equity types.

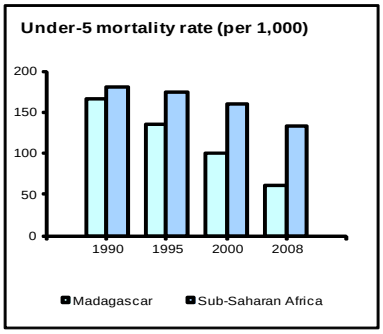
Annex 10: Country at a Glance

Madagascar at a glance

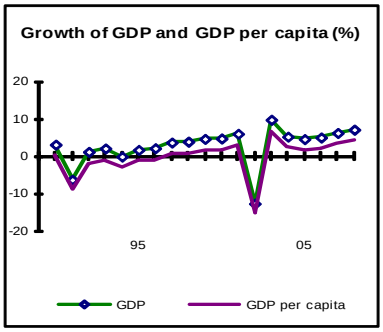
2/25/11

Key Development Indicators	Madagascar	Sub-Saharan Africa	Low income
(2009)			
Population, mid-year (millions)	19.6	819	828
Surface area (thousand sq. km)	*587*	24,242	17,838
Population growth (%)	2.7	2.5	2.2
Urban population (% of total population)	30	36	28
GNI (Atlas method, US$ billions)	8.5	897	389
GNI per capita (Atlas method, US$)	430	1,095	470
GNI per capita (PPP, international $)	*1,060*	1,981	1,131
GDP growth (%)	-3.7	5.2	6.2
GDP per capita growth (%)	-6.2	2.7	3.9
(most recent estimate, 2003–2008)			
Poverty headcount ratio at $1.25 a day (PPP, %)	68	51	..
Poverty headcount ratio at $2.00 a day (PPP, %)	90	73	..
Life expectancy at birth (years)	60	52	57
Infant mortality (per 1,000 live births)	41	83	77
Child malnutrition (% of children under 5)	37	25	28
Adult literacy, male (% of ages 15 and older)	77	72	73
Adult literacy, female (% of ages 15 and older)	65	54	59
Gross primary enrollment, male (% of age group)	154	105	107
Gross primary enrollment, female (% of age group)	149	95	100
Access to an improved water source (% of population)	41	60	64
Access to improved sanitation facilities (% of population)	11	31	35





Net Aid Flows	1980	1990	2000	2009 [a]
(US$ millions)				
Net ODA and official aid	230	397	320	841
Top 3 donors (in 2007):				
European Commission	20	36	20	140
France	54	143	46	88
United States	0	22	32	84
Aid (% of GNI)	5.7	13.4	8.4	9.0
Aid per capita (US$)	27	35	21	44
Long-Term Economic Trends				
Consumer prices (annual % change)	..	11.8	10.7	9.0
GDP implicit deflator (annual % change)	15.0	11.5	7.2	8.3
Exchange rate (annual average, local per US$)	42.3	298.8	1,353.5	1,956.2
Terms of trade index (2000 = 100)	..	83	100	48



					1980–90	1990–2000	2000–09
					(average annual growth %)		
Population, mid-year (millions)	8.6	11.3	15.3	19.6	2.7	3.0	2.8
GDP (US$ millions)	4,042	3,081	3,878	8,590	1.1	2.0	3.6
		(% of GDP)					
Agriculture	30.1	28.6	29.2	29.1	2.5	1.8	2.4
Industry	16.1	12.8	14.2	16.0	0.9	2.4	4.2
Manufacturing	..	11.2	12.2	14.1	*2.1*	2.0	5.1
Services	53.9	58.6	56.6	54.9	0.3	2.3	3.6
Household final consumption expenditure	89.3	86.4	83.2	79.7	-0.7	2.2	2.1
General gov't final consumption expenditure	12.1	8.0	9.0	11.5	0.5	0.0	5.5
Gross capital formation	15.0	17.0	15.0	32.6	4.9	3.3	14.1
Exports of goods and services	13.3	16.6	30.7	28.5	-0.8	3.8	6.7
Imports of goods and services	29.7	28.0	38.0	52.2	-5.7	4.1	9.3
Gross savings	-2.4	9.2	9.4	10.7			

Note: Figures in italics are for years other than those specified. 2009 data are preliminary. .. indicates data are not available.
a. Aid data are for 2008.

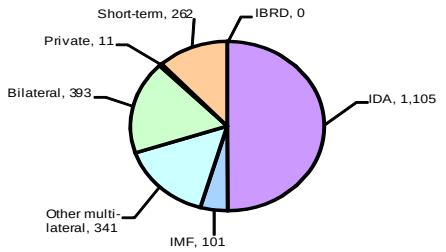
Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade	**2000**	**2009**
(US$ millions)		
Total merchandise exports (fob)	829	1,042
Total merchandise imports (cif)	1,097	3,197
Net trade in goods and services	-283	-2,033
Current account balance	-218	-1,818
as a % of GDP	-5.6	-21.2
Workers' remittances and compensation of employees (receipts)	11	10
Reserves, including gold	288	1,153

Central Government Finance		
(% of GDP)		
Current revenue (including grants)	12.4	11.2
Tax revenue	11.3	10.6
Current expenditure	9.6	10.7
Overall surplus/deficit	-6.5	-3.8
Highest marginal tax rate (%)		
Individual	..	..
Corporate	..	..

External Debt and Resource Flows		
(US$ millions)		
Total debt outstanding and disbursed	4,691	2,213
Total debt service	117	45
Debt relief (HIPC, MDRI)	1,236	1,351
Total debt (% of GDP)	121.0	25.8
Total debt service (% of exports)	9.7	1.7
Foreign direct investment (net inflows)	83	1,384
Portfolio equity (net inflows)	0	0

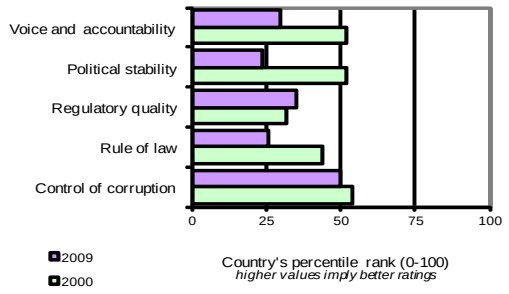
Composition of total external debt, 2009



US$ millions

Private Sector Development	**2000**	**2009**
Time required to start a business (days)	–	7
Cost to start a business (% of GNI per capita)	–	6.2
Time required to register property (days)	–	74
Ranked as a major constraint to business (% of managers surveyed who agreed)	**2000**	**2009**
Access to/cost of financing	..	*68.3*
Corruption	..	*46.1*
Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	7.1	..

Governance indicators, 2000 and 2009



Source: Kaufmann-Kraay-Mastruzzi, World Bank

Technology and Infrastructure	**2000**	**2008**
Paved roads (% of total)	11.6	..
Fixed line and mobile phone subscribers (per 100 people)	1	26
High technology exports (% of manufactured exports)	0.5	0.7

Environment		
Agricultural land (% of land area)	70	*70*
Forest area (% of land area)	22.4	*21.9*
Terrestrial protected areas (% of surface area)	..	3.1
Freshwater resources per capita (cu. meters)	*20,816*	17,634
Freshwater withdrawal (billion cubic meters)	15.0	..
CO2 emissions per capita (mt)	0.16	*0.12*
GDP per unit of energy use (2005 PPP $ per kg of oil equivalent)	..	..
Energy use per capita (kg of oil equivalent)	..	..

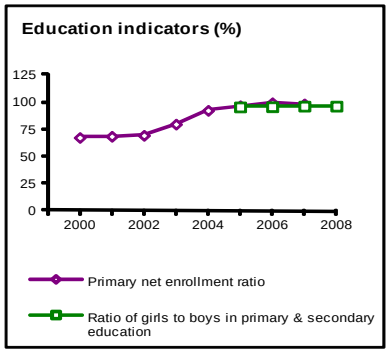
World Bank Group portfolio	**2000**	**2009**
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	0	0
Disbursements	0	0
Principal repayments	0	0
Interest payments	0	0
IDA		
Total debt outstanding and disbursed	1,378	1,105
Disbursements	94	31
Total debt service	27	9
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	8	35
of which IFC own account	8	25
Disbursements for IFC own account	1	0
Portfolio sales, prepayments and repayments for IFC own account	2	0
MIGA		
Gross exposure	1	36
New guarantees	0	0

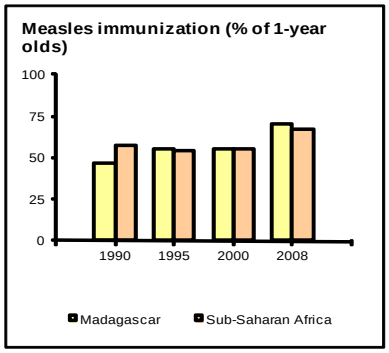
Note: Figures in italics are for years other than those specified. 2009 data are preliminary. 2/25/11
.. indicates data are not available. – indicates observation is not applicable.

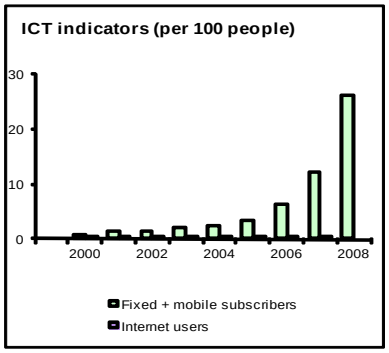
Development Economics, Development Data Group (DECDG).

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Madagascar			
Goal 1: halve the rates for extreme poverty and malnutrition	**1990**	**1995**	**2000**	**2008**
Poverty headcount ratio at $1.25 a day (PPP, % of population)	..	*72.0*	*76.3*	*67.8*
Poverty headcount ratio at national poverty line (% of population)	..	*73.3*	*71.3*	*68.7*
Share of income or consumption to the poorest quintile (%)	..	*6.1*	*4.9*	*6.2*
Prevalence of malnutrition (% of children under 5)	*35.5*	*35.5*	..	*36.8*
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	70	58	68	*98*
Primary completion rate (% of relevant age group)	37	31	38	71
Secondary school enrollment (gross, %)	19	*16*	..	30
Youth literacy rate (% of people ages 15-24)	..	..	70	70
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	96	*96*	..	97
Women employed in the nonagricultural sector (% of nonagricultural employment)	..	..	36	*38*
Proportion of seats held by women in national parliament (%)	7	*4*	8	8
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	167	135	100	61
Infant mortality rate (per 1,000 live births)	102	84	65	43
Measles immunization (proportion of one-year olds immunized, %)	47	55	55	70
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	710	680	580	440
Births attended by skilled health staff (% of total)	*57*	*47*	46	*51*
Contraceptive prevalence (% of women ages 15-49)	*17*	*19*	19	*27*
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	*0.1*	0.1	*0.1*
Incidence of tuberculosis (per 100,000 people)	180	200	220	260
Tuberculosis case detection rate (%, all forms)	31	84	*47*	45
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	31	34	37	41
Access to improved sanitation facilities (% of population)	8	9	10	11
Forest area (% of total land area)	23.5	23.0	22.4	*219*
Terrestrial protected areas (% of surface area)	..	..	..	3.1
CO2 emissions (metric tons per capita)	0.1	0.1	0.2	*0.1*
GDP per unit of energy use (constant 2005 PPP $ per kg of oil equivalent)	..	..	..	..
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	0.3	0.3	0.4	0.9
Mobile phone subscribers (per 100 people)	0.0	0.0	0.4	25.3
Internet users (per 100 people)	0.0	*0.0*	0.2	17
Personal computers (per 100 people)	..	*0.1*	0.2	*0.6*







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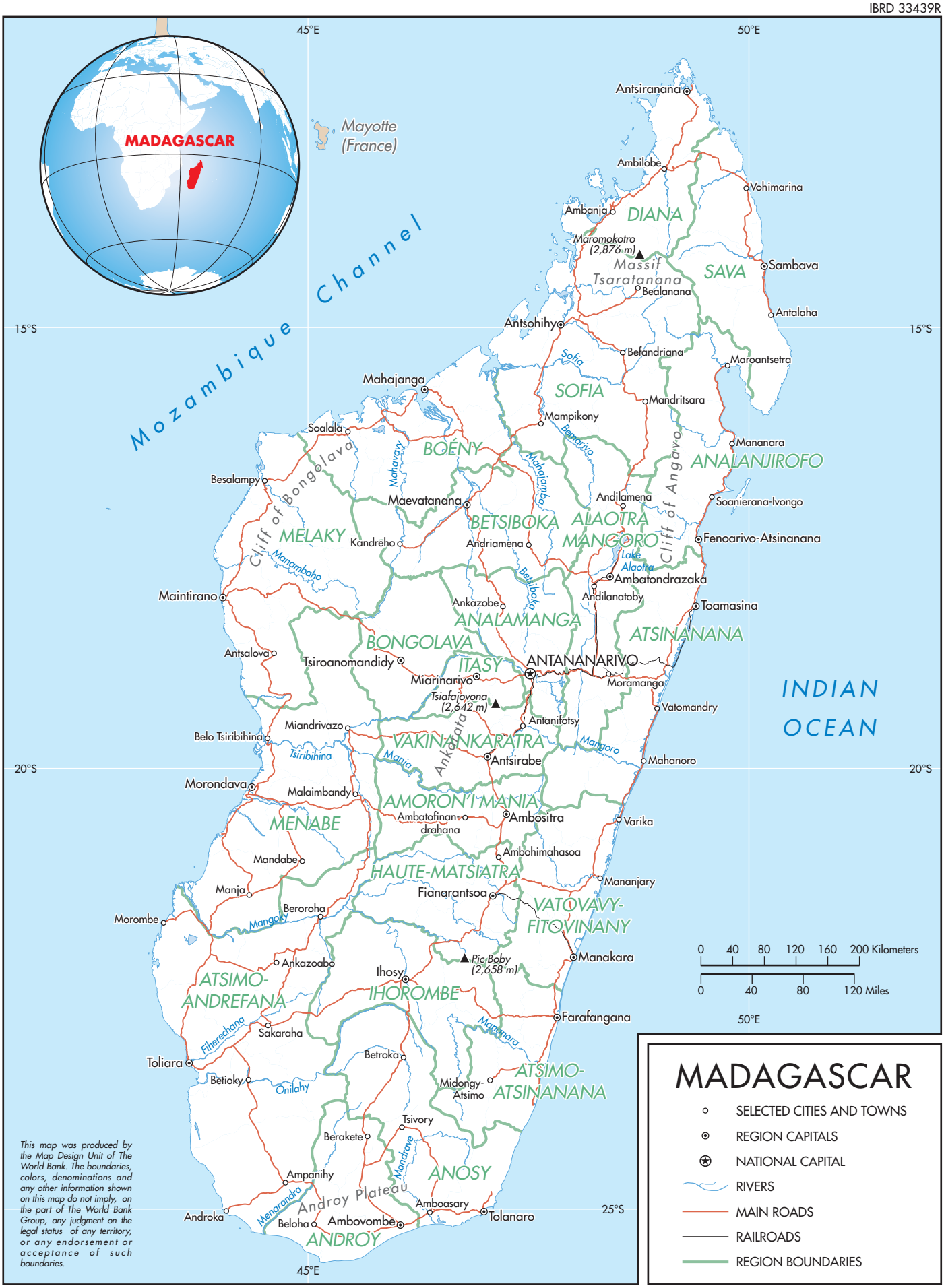

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