AFRICAN DEVELOPMENT BANK GROUP

MADAGASCAR

COMBINED REPORT ON THE 2014-2016 INTERIM COUNTRY STRATEGY PAPER (I-CSP) AND THE COUNTRY PORTFOLIO PERFORMANCE REVIEW (CPPR)

ORCE/MGFO/ORTS/DEPARTMENTS

October 2014

Translated document

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ABBREVIATIONS AND ACRONYMS

ADF:	African Development Fund
AFD:	French Development Agency
AfDB:	African Development Bank
AGOA :	African Growth and Opportunity Act
BTP:	Construction and Public Works
CPIA:	Country Policy and Institutional Assessment
CODE:	Committee on Operations and Development Effectiveness
COMESA:	Common Market for Eastern and Southern Africa
CRBS:	Crisis Response Budget Support
CSP:	Country Strategy Paper
EITI:	Extractive Industries Transparency Initiative
ENSOMD:	Millennium Development Goals National Monitoring Survey
FDI:	Foreign Direct Investment
GDP:	Gross Domestic Product
GSP:	General State Policy
HDI:	Human Development Index
HIMO :	Labour Intensive
HIV-AIDS:	Human Immunodeficiency Virus-Acquired Immune Deficiency Syndrome
IMF:	International Monetary Fund
IOC:	Indian Ocean Commission
MDGs:	Millennium Development Goals
MGA:	Madagascar Ariary
MGFO:	Bank's Field Office in Madagascar
NCB:	National Competitive Bidding
NICT:	New Information and Communication Technology
NTB:	Non-Tariff Barriers
ODR:	Own Domestic Resources
PACPT:	Tulear Fishing Communities Support Project
PAGI:	Institutional Governance Support Project
PAIR:	Road Infrastructure Development Project
PALMT:	Communicable Disease Control Support Project
PEFA:	Public Expenditure and Financial Accountability
PFM:	Public Finance Management
PIU:	Project Implementation Unit
PPF:	Project Preparation Facility
PRIASO:	South-West Region Agricultural Infrastructure Rehabilitation Project
PROJERMO:	Mid-West Young Rural Enterprise Project
PRPBM:	Lower Mangoky Irrigation Area Rehabilitation Project
RISP:	Regional Integration Strategy Paper
RWSSP:	Rural Water Supply and Sanitation Programme.
SADC:	Southern African Development Community
SDR:	Special Drawing Rights
SL:	Supplementary Loan
SLL:	Sustainable Lending Limit
SNRD:	National Development Revival Strategy
TFP:	Technical and Financial Partner
TSF:	Transition Support Facility
UNDP:	United Nations Development Programme
USAID:	United States Agency for International Development
WB:	World Bank

CURRENCY EQUIVALENTS
(Rates as of June 2014)

Currency Unit	=	Ariary (MGA)
UA 1	=	MGA 3680.77
UA 1	=	USD 1.54047
UA 1	=	EUR 1.13212
USD 1	=	MGA 2337.45
EUR 1	=	MGA 3180.55

FISCAL YEAR

1 January – 31 December

KEY DATES FOR I-CSP REPORT PREPARATION

Consideration of the Conception Note by the Country Team	:	February 2014
Submission and ORCE visa	:	March 2014
Preparation Mission	:	May-June 2014
Report Review by the Country Team	:	July 2014
Report Review by OPSCOM	:	September 2014
Dialogue Mission	:	September 2014
Board Consideration (tentative date)	:	October 2014

EXECUTIVE SUMMARY

1. Following presidential and parliamentary elections held in late 2013, the situation in Madagascar is returning to normal after five years of internal socio-political crisis. Even so, the political process remains fragile and needs to be consolidated through efforts that the new authorities should deploy to ensure national reconciliation and strengthen the rule of law, governance, economic and social recovery.

2. Economic activities bore the brunt of the protracted domestic turmoil. Real GDP growth, which averaged around 5.7% over the 2005-2008 period, slumped to -4.1% in 2009 before picking up to 1.7% between 2010-2013. Political normalisation should be accompanied by a gradual recovery of economic activity, buoyed by growth in the mining sector, the increased volume of development assistance and private investment. The weak economic performance and protracted political crisis have degraded the people's living conditions. Poverty and extreme poverty affect approximately 71.7% and 52.7% of the population, respectively, with very high social and income inequalities. Most social indicators have either stagnated or declined. The combination of these factors earned Madagascar a place on the 2013 classification of countries in fragile situations.

3. In the wake of the crisis, Madagascar is facing major challenges in the political, social, economic, infrastructure and governance spheres. These challenges are listed in the General State Policy (GSP) statement (a Government policy statement) issued in May 2014 and which will be implemented through the National Development Plan (NDP) 2015-2020 currently being prepared. Pending the finalisation of this Plan, the Bank, in agreement with Malagasy authorities, opted for the preparation of this interim Country Strategy Paper (I-CSP) 2014-2016, which covers the transition phase of the Bank Group's interventions, in response to the country's fragile situation. The Bank intends to adopt a flexible approach that would enable it to prepare a five-year CSP as soon as conditions permit.

4. The I-CSP that will support the implementation of the GSP is centred on the following two pillars: (i) Strengthening governance to consolidate the State; and (ii) Developing rural access infrastructure to reduce food insecurity. The choice of these two pillars is based on the challenges and opportunities stemming from the country's fragile state and will speed up Madagascar's transition towards resilience. The goal is to strengthen the Bank Group's targeted and selective interventions and ensure that the I-CSP is in line with both the commitments of international partnerships and the Bank's Ten-Year Strategy for 2013-2022. It will provide a framework for consideration of the country's eligibility for Pillar I of the Transition Support Facility (TSF). The Bank will assist the country with advice on the preparation of the National Development Plan (NDP), especially to ensure that factors of fragility are reduced and the problems of green and inclusive growth addressed.

5. The I-CSP relies on the current portfolio whose overall performance is satisfactory, with a score of 2.38 out of 3, compared to a 2.04 rating in the 2013 review. This improvement is due mainly to MGFO's on-going support to project implementation organs, which allowed for better control of the procurement process and improved performance of activities and works. The implementation of the revised Portfolio Performance Improvement Plan emanating from this review will consolidate these gains and correct any remaining weaknesses in portfolio management.

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I INTRODUCTION

1.1. After experiencing nearly five years of socio-political crisis, Madagascar was able to successfully organize presidential and legislative elections in the last quarter of 2013, thus marking its return to constitutional order and the concert of nations. The prolonged crisis resulted in a decline in economic and social performance, and a deterioration of infrastructure and governance. The country was eventually considered a State in fragility in 2013, according to the commonly agreed methodology employed by multilateral development banks (AfDB and World Bank), based on the average of the Country Policy and Institutional Assessment (CPIA) indicators. Throughout the crisis, the Bank never suspended its assistance to Madagascar. The assistance formed part of the update[1] of the 2005-2009 Country Strategy Paper (CSP) approved in October 2005, the two pillars of which aimed at improving the quality of rural infrastructure and governance.

1.2. The country continues to face several major challenges arising from the effects of the fragility that were listed in the General State Policy (GSP) statement approved by the National Assembly in May 2014. The GSP will be operationalized through the medium-term National Development Plan (NDP) (2015-2020). Pending the finalisation of the Plan in 2015, the Bank, in agreement with Malagasy authorities, opted for the preparation of this interim Country Strategy Paper (I-CSP) for 2014-2016 which will underpin the implementation of the GSP. The (I-CSP) aligns with a transition phase of Bank Group interventions designed to address the country's fragility and is based on the following two pillars: (i) Strengthening governance to consolidate the State; and (ii) Development of rural access infrastructure to reduce food insecurity. The choice of these pillars takes account of the challenges and opportunities arising from the fragility prism and helps to speed up the country's transition towards resilience. The Bank will also support Madagascar by providing advice on the drafting of the NDP to incorporate ways of better reducing the factors of fragility and address issued related to green and inclusive growth. The I-CSP builds on the Bank's Ten-Year Strategy for 2013-2022 and its new intervention strategy to remedy fragility and strengthen resilience in Africa. It will also provide a framework for consideration of the country's eligibility for Pillar I of the Transition Support Facility (TSF) presented in Annex VIII.

1.3. Besides the Introduction (I), this report includes three other sections, namely: the Country Context and Prospects (II), the Bank Group Strategy for Madagascar for the Period 2014-2016 (III), and the Conclusion and Recommendations (IV).

[1] Considering the crisis context, the initial CSP was successively extended twice, up to end-2011 and end-2013, respectively. CODE approved the completion report on 15 April 2014.

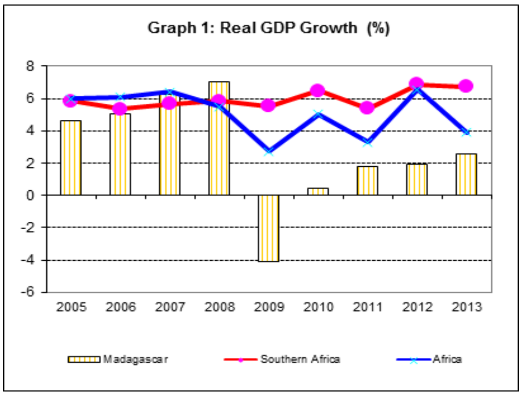
II. COUNTRY CONTEXT AND PROSPECTS

2.1 Political, Economic and Social Context

Political Context

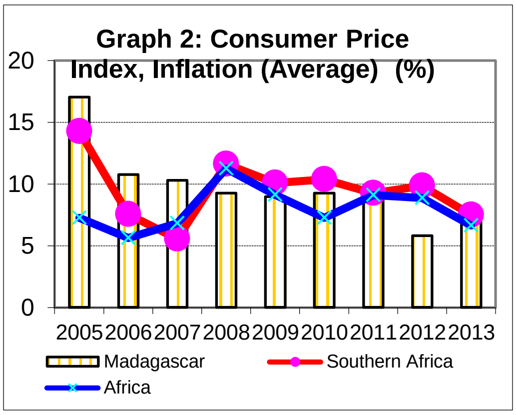
2.1.1. Since Madagascar became independent in 1960, succession at the head of the executive has often been marked by violence[2]. Thus, almost all Malagasy Heads of State were more or less confronted with political crises, the most violent of which were those of 1972, 1991, 2002 and 2009, all arising from street protests. These repeated crises are immediate manifestations of fragility and tend to be prolonged[3] over time.

2.1.2. Recent political developments are encouraging, but still fragile. Thanks to the support of the international community and regional organisations, presidential and legislative elections were organized successfully end-2013. A broad-based government, including the main political parties, was formed in April 2014. The organisation of local and Senate elections[4] will complete the process of establishing new institutions. However, the political process remains fragile, given the difficulties encountered in appointing the Prime Minister in April 2014 and establishing the Bureau of the National Assembly, where the parliamentary majority has changed in less than two months. The high number of members not affiliated with a political party (25 of 151) and low visibility in the sustainability of their political commitments constitute a potential factor of instability of the parliamentary institution.



2.1.3. **Strengthening State resilience will help to put an end to the cyclical political crises**. Accordingly, priority should be given to reviving the inclusive political dialogue, strengthening security nationwide and rebuilding genuine rule of law with strong institutions. Doing this requires the commitment of the country's authorities and ownership by all political stakeholders.

Economic Context



2.1.4. Although Madagascar has considerable economic potential, growth has been weak, slow and unstable over the past decade (Figure 1). Real GDP growth, which averaged approximately 5.7% over the period 2005-2008, dropped to -4.1% in 2009, before picking up to 1.7% on average over the period 2010-2013, thus reflecting the effects of the 2009 crisis. The secondary sector (18.7% of GDP in 2013) has been the main engine of growth at 22.7%, driven mainly by extractive industries and agro-industry. The tertiary sector (52.7% of GDP) registered a slowdown in 2013 (2.4% compared to 2.6% in 2012) attributable to the decline in

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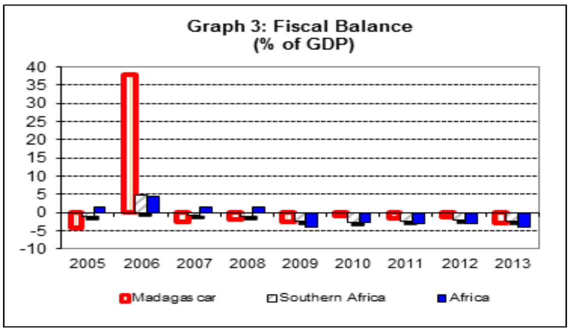
2 See *Assessing Madagascar's Fragility,* AfDB, March-June 2014
3 The 2009 crisis lasted nearly five years, compared to a few weeks in 1972.
4 The dates of these elections have not yet been determined.

transport- and trade-related sub-sectors, and is the second engine of growth. Lastly, growth in the primary sector (28.7% of GDP) has dropped significantly, from 1.5% in 2012 to -6.1% in 2013, due to the locust invasion and cyclones that affected agricultural production.

2.1.5. **The normalisation of the political situation should be accompanied by a resumption of development assistance and private investment.** Therefore, growth prospects should be better in 2014 and 2015, with rates estimated at 3.7% and 5.4%, respectively. Extractive industries, agribusiness, export processing zones, tourism and construction and public works will be the main drivers of the economy over the coming years. However, there are two major challenges related to the development of these sectors: (i) renewable or non-renewable natural resources are not managed efficiently, i.e. by preserving natural capital; (ii) the growth of these sub-sectors is already showing negative social and environmental consequences.

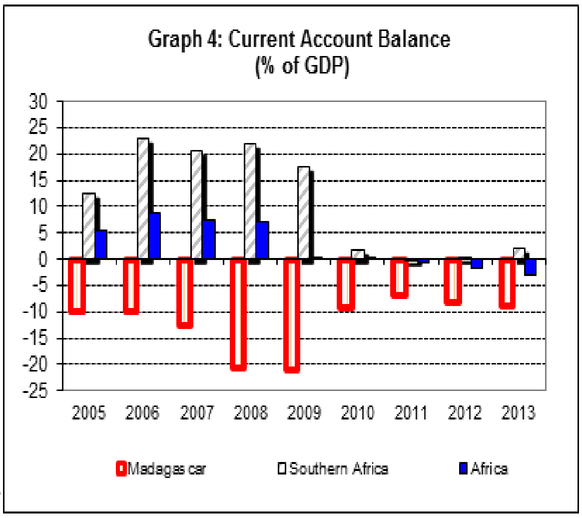


Source: AfDB Statistics Department, PEA March 2014

Macroeconomic Management

2.1.6. **Thanks to a prudent monetary policy, monetary aggregates are generally under control**. The increase in money supply was moderate at 5.5% in 2013, compared with 16.4% in 2011. In real terms, the exchange rate of the floating Ariary appreciated by 4.7% in 2013, according to the IMF, due to higher price increases nationally compared with those of the country's major trading partners. The inflation rate (see Figure 2) which was 17% in 2005 was gradually contained at 5.8% in 2012 and 6.3% in 2013. In 2013, rising prices mainly affected basic commodities such as rice, following bad crop harvests[5] and resulting in record imports of this product of around 400,000 tonnes. The relative weak prices observed since 2012 is also attributable to the freezing of prices of petroleum products from 2011. The IMF estimated the budgetary cost of this freeze at around 1.5% of GDP per year. The Government is currently paying particular attention to the application of flexible prices.

2.1.7. **The political crisis had a negative impact on public finances**, following the fall in external financing[6]. This led the country to implement an austerity fiscal policy which resulted in a significant reduction in public spending, especially social spending. According to the IMF, the budget deficit widened from 2% of GDP in 2008 to nearly 5.1% in 2013. However, the country's tax burden rate (9.3% in 2013 compared with 11.8% in 2008) remains one of the lowest in sub-Saharan Africa and is due to the decline of economic activity and the rise in informal sector activities. In this context, budget deficits were financed mainly by the domestic banking system and a significant accumulation of domestic arrears that, according to the IMF, reached 3.8% of GDP in 2013. These arrears have consequences on the capacity and development of private sector activities. With the gradual resumption of aid, the Government prepared a 2014 supplementary finance law which raises priority social spending and capital expenditure by approximately USD 350 million (3.2% of



5 According to a FAO/WFP joint report published in October 2013, rice of 21% compared to 2012.

6 External grants dropped from 3.2% of GDP in 2008 to 1.2% of GDP in 2013. Actual assistance disbursements in 2013 were only 52% of the volume of assistance received in 2008.

GDP). This extra spending will be funded by an increase in domestic revenue, budget support and reduction in non-priority spending.

2.1.8. **The country's public debt stock is low but the management capacity should be strengthened**. According to the last IMF-World Bank joint analysis (June 2014) of Madagascar's debt sustainability, the risk of over-indebtedness is low and has remained unchanged since 2008. The total public debt stock was estimated at 35% of GDP at end-2013, falling below the sub-Saharan Africa level. The external public debt was contracted primarily on concessional terms. The analysis shows that Madagascar's indebtedness level should remain relatively stable in the long term, since the increase in new loans to finance infrastructure projects should be offset by the rise in tax revenue following the resumption of growth. In light of the country's low risk of over-indebtedness, Malagasy authorities have expressed their desire to access the Bank's sovereign window resources, particularly to finance the second phase of RN 9, expected in 2016. In this respect, the Bank maintains regular dialogue with the Malagasy Government and the IMF on conditions for mobilising these resources, in compliance with the provisions of its new policy on the matter (see ADF/BD/WP/2014/31/Rev.2 of 05/05/14). It should be noted that a 2013 assessment of the management capacity of the country's debt by the WB showed that Madagascar must make efforts to improve its capacity in this area, especially as concerns the legal framework, the operational aspects and human resources. In this regard, a reform of the debt management plan is being prepared.

2.1.9. **Concerning the external sector**, the current balance deficit that stood at 21.2% of GDP in 2009, gradually improved to 5.2% in 2013, induced mainly by an improvement in the trade balance. Exports driven by the mining sector have tended to increase, compared with a downward trend in imports, due to the decline in economic activity. Under the effect of pressure on petroleum and food product imports in particular, combined with a decrease in foreign direct investment (FDI)[7], the country's foreign exchange reserves dropped from SDR 741.7 million in 2011 to SDR 502.4 million (i.e., 2.2 months of imports).

Governance

Source: AfDB Statistics Department, PEA March 2014

2.1.10. The country's performance in economic and financial governance has deteriorated because of the crisis. The various diagnoses (PEFA Auto-Evaluation in 2013 and Public Expenditure Review in 2011) revealed some improvement in the budget planning and income forecast process. Madagascar was rated "A" for two PEFA indicators (budget classification (PI-5) and total revenue approved compared to total revenue (PI-3) in 2013: However, weaknesses remain, particularly in relation to credibility of the fiscal year, internal and external oversight, accounting and cash management, financial decentralisation as well as the quality of surveillance exercised by the central government over autonomous public agencies. Times of crisis have often given rise to the illegal exploitation of the country's resources (renewable and non-renewable), as reflected in the illegal trafficking not only of rosewood and endemic species but also of precious stones. Lastly, the control of the procurement process has been slackened. In this regard, key governance indicators show a decline of the country's ranking. According to the Mo Ibrahim Index, Madagascar is among countries that recorded a sharp decline in governance: among African countries, it dropped from the 9th position in 2009 to the 37th in 2012. Furthermore, according to the Transparency International 2013 Report, Madagascar has lost 4 spots compared with 2012, ranking 127th out of 177 countries.

2.1.11. **Given these weaknesses, the Government, in the context of the Rapid Credit Facility with the IMF, devoted its efforts to improving public finance management**

[7] At end-2013, FDI was estimated at 5.2% of GDP for the year, against 8.2% of GDP for 2009. This decline was due to the completion of major projects.

(PFM) and combating corruption. In this regard, a Short-term Action Plan (2014-2015) focusing on priority reforms is being prepared with IMF technical assistance. In the medium term, the Government intends to develop a strategy for modernising the PFM system with the Bank's technical assistance, to bring it in line with the relevant international standards.

Business Environment and Competitiveness

2.1.12. Improving the business environment is a priority area for economic recovery. In the World Bank Doing Business Report 2014 (see Table 1), Madagascar lost 4 spots on the *Ease of Doing Business* indicator, ranking 148th out of 189 countries, with a regression in most areas. The business environment is handicapped by structural factors such as the high cost of electricity, difficulty in obtaining credit despite a relatively liquid banking system, cumbersome procedures for the registration of property, high cost of export operations and the complexity of dispute settlement procedures, not to mention the recurring issues of corruption and insecurity. The insufficient and poor state of infrastructure increases the direct and indirect costs borne by businesses, therefore hampering their competitiveness. As such, Madagascar ranked 130th out of 144 countries in the 2012-2013 Global Competitiveness Report from global competitiveness point of view. The Government is committed to introducing reforms to create an environment that would encourage private sector activities and attract foreign direct investment (FDI).

Table 1: Ease of Doing Business in 2012 and 2013 (Ranking)

Title	Rank in 2012	Rank in 2013	Status of Improvement (▼)
Ease of Doing Business	144	148	▲
Starting a Business	17	29	▲
Permits	150	157	▲
Registering Property	148	155	▲
Getting Credit	182	180	▼
Protecting Investors	67	68	▲
Paying Taxes	72	61	▼
Trading Across Borders	121	115	▼
Enforcing Contracts	158	160	▲
Resolving Insolvency	152	157	▲

Source: AfDB Statistics Department using Doing Business data

Trade and Regional Integration

2.1.13. Madagascar belongs to several sub-regional organisations such as the Common Market of Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC) and the Indian Ocean Commission (IOC). However, intra-regional trade remains undeveloped due to lack of adequate infrastructure and the persistence of non-tariff barriers (NTB)[8]. In 2012, Malagasy exports to the SADC, COMESA and the Indian Ocean Commission (IOC) accounted for 5.3%, 3% and 3.1% of the country's total exports, respectively, while imports from these three regional blocs were 12%, 6.9% and 5.5% of the total imports, in that order. Regionally, South Africa and Mauritius are Madagascar's major trading partners. With the normalisation of the socio-political situation, the country, which currently holds the IOC presidency, could play a major role in strengthening trade within this sub-region, considering its central position (Box 1).

Box 1: Madagascar's importance in the Indian Ocean Commission: Madagascar is the most important country in the region in terms of its surface area, endowment in natural resources, workforce and market size. Madagascar accounts for 99% of land in the region, 90% of which is usable for agriculture. This makes it a potential breadbasket for the Indian Ocean. The country is the world's largest exporter of vanilla, and second largest producer of nickel and cobalt. Therefore, it offers investment opportunities, but should create the conditions for lasting political stability, a more conducive business environment and governance framework without forgetting land security facilitation.

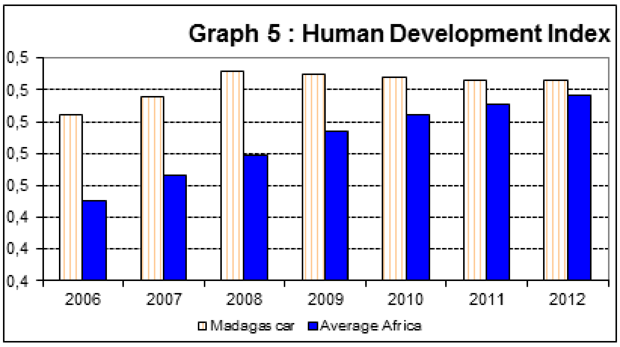
Social Context

2.1.14. Madagascar faces structurally high poverty, which is aggravated by recurrent extreme climatic events that worsen the population's vulnerability. According to the 2012 MDG National Monitoring Survey (ENSOMD), poverty affected nearly 71.7% of the populace (77% in rural areas). Extreme poverty affected 52.7% of the Malagasy people.

[8] A national committee to combat NTB was set up in 2012 but has never been operational for lack of resources.

Social inequalities[9] and income disparities were quite high. Rural remote or landlocked areas, households headed by women (57.2%) and youths are more affected by poverty. Furthermore, nearly four million people are in a situation of food insecurity, especially in the South, with 47.3% of children under five suffering from chronic malnutrition. Lastly, although the unemployment rate is only 3%[10], the inadequate employment status[11] became widespread with the crisis (this situation affected more than 81% of workers, including women in rural areas).

2.1.15. **Madagascar will not be able to achieve the Millennium Development Goals (MDGs) by 2015 (see Annex VII).** The country had a human development index (HDI) of 0.483 in 2012 and was ranked 151st out of 187 countries. Overall, social indicators have declined or stagnated. With regard to universal education (MDG No. 2), the net primary enrolment rate decreased from 91.3% in 2009 to 86.3% in 2013; one in two children who begins the primary cycle will drop out before the end of the cycle - a phenomenon affecting more girls than boys. Fewer people attended basic health centres (29.2% in 2013 compared to 37.6% in 2008). The level of 5 child mortality among children below five years of age (MDG 4) has stagnated since 2009, while the rate of maternal mortality (MDG 5) is still high (240 per 100 000 live births in 2012). HIV prevalence (MDG 6) is low (0.3% at end-2012), but the situation is worrying for homosexuals where it stands at 14.7%. Moreover, only 48.1% of the population had access to an improved drinking water source and 13.7% used improved sanitation facilities in 2012 (MDG 7). In light of this precarious social situation, most post-crisis programmes of key development partners, including the Bank's budget support, seek to improve the allocation of resources to the basic priority areas to enhance the social indicators.



Source: AfDB Statistics Department, PEA March 2014

Box 2: Gender Mainstreaming in the 2014-2016 I-CSP

The I-CSP will put special emphasis on building the resilience capacity of vulnerable groups, including women. Concretely, it will facilitate access to land for at least 33% of women heads of household, promote businesses in rural areas (25% of which are managed by women) falling in the Bank intervention area, and create jobs in rural areas, ensuring that 33% of such employment is held by women. Women will be well represented in the management structures of infrastructure set up and in all training activities (minimum 33%). These actions are complementary to those provided under the Bank's regional project (being prepared) for the Indian Ocean, which aims to promote gender equality and fight violence against women..

2.1.16. Indicators related to gender, especially to the socio-economic situation of women and their resilience capacity, have deteriorated. Since the country's suspension from the African Growth and Opportunity Act (AGOA) facility in 2009, several jobs occupied by women have been lost in industrial free zone enterprises where the workforce is predominantly female. Girls have become more vulnerable, resulting in an increase in prostitution and human trafficking affecting young women. The political crisis has also led to a growing number of cases of attacks on girls and women, who are still extremely exposed to domestic and sexual violence. Lastly, women continue to be subject to discrimination in the administrative, political and military spheres. However, all these factors should not overshadow the country's efforts towards reducing gender disparities, particularly in education. The girls/boys parity at the primary level is 1.05, but tends to diminish as the level of schooling increases. The modalities for addressing gender issues in the I-CSP are listed in Box 2.

9 The Gini coefficient is high (48) while the quintiles and extreme decile consumption ratio varies from 10 to 20 times.
10 According to the ILO, these are persons searching for employment.
11 These are full-time jobs that offer an hourly pay below the minimum wage in force.

Environment and Climate Change

2.1.17. **Madagascar is known for its rich biodiversity, today increasingly endangered**. Nearly 80% of plant species and 90% of animal species found there are endemic to the country. This natural capital with rich and varied ecosystems is an essential asset for diversifying economic activities, while ensuring its preservation. However, despite numerous initiatives taken by the country on the political, strategic and legislative fronts to protect this heritage, it continues to face significant environmental challenges manifested, among others, by: deforestation, degradation of natural areas, inland and coastal erosion, accelerated depletion of natural capital as well as the extinction of endemic species. This situation threatens the ecological and ecosystem functions that ensure the population's well-being and socio-economic development. In addition, there are threats resulting from mining activities in overlapping forest areas and protected areas, illegal logging of precious tree species, locust invasions, pollution from various sources, and the use of biomass as main energy source, escalating deforestation and disease caused by indoor air pollution.

2.1.18. **These environmental problems are compounded by the low resilience of the population to climate hazards**. Due to the country's geographic location and the spatial distribution of the population, the majority of productive sectors are highly vulnerable to extreme weather events such as cyclones, floods and droughts. The World Bank[12] assessed the costs of environmental degradation at between USD 450 and 500 million annually, or 9 to 10% of GDP, which is a major setback for the country's development. Hence, to develop the country, it is essential to fully integrate climate risks, so that investments made are more resilient to extreme events and therefore more sustainable. Aware of these issues, Malagasy authorities have expressed their intention to integrate the green growth dimension in the NDP and requested Bank support in this respect. Accordingly, the Bank: (i) supported the country in organising a Workshop on National Dialogue on Green Growth on 3 June 2014, under the distinguished patronage of the President of the Republic of Madagascar (see key recommendations in Box 3); and (ii) conducted a study on the status of and opportunities for green growth in Madagascar.

Box 3: A Few Recommendations of the Workshop on National Dialogue on Green Growth, held on 3 June 2014: (i) finalize the status report identifying the main opportunities for the green economy in Madagascar; (ii) review the definition of the green economy to align with the GSP; (iii) incorporate the green economy in the NDP; (iv) develop a communication strategy for disseminating information about the green economy; (v) improve inter-ministerial coordination; (vi) enhance the management of available data; (vii) initiate reflection on the mobilisation of funding for a green and inclusive economy.

[12] World Bank: "Madagascar Country Environmental Analysis- Taking Stock and Moving Forward"; 2013

2.2. Strategic Options

Country Strategic Framework

2.2.1. Madagascar has had no medium-term development strategy paper since end-2012 when the Madagascar Action Plan (MAP) 2007-2012 expired. To fill this void, the Transitional Government began to prepare an Interim National Development Revival Strategy (SNRD) for the 2014-2015 period, but the process was not continued by the new authorities. Therefore, the main national reference framework in force is the General State Policy (GSP) statement prepared by the Government and approved by the National Assembly in May 2014. The aim of the GSP is to "*establish inclusive and sustainable development grounded in inclusive growth, to counter poverty"*. It is centred on three priority areas: (i) strengthening governance, the rule of law and the establishment of equitable justice; (ii) ensuring economic recovery by creating a stable social and political environment, maintaining macroeconomic stability and restoring a business-friendly climate; and (iii) expanding access to high-quality basic social services. The I-CSP will be anchored on the GSP, pending finalisation of the National Development Programme (NDP).

2.2.2. At the sector level, several strategies or plans are currently being implemented or prepared in such key line ministries as those in charge of education, health, water and sanitation, rural development and transport. A national good governance policy has also been defined. These strategies will serve as an anchor for operations that will be defined under this strategy.

Challenges and Weaknesses

2.2.3. The weaknesses of the Malagasy economy and the challenges to be tackled emanate from the causes and manifestations of fragility, the main factors of which are highlighted in the study on Madagascar's fragility and summarized in Box 4 below. During the I-CSP period, the Bank intends to assist the authorities in addressing the following key challenges: (i) strengthening inclusive political and social dialogue, through ownership of the outcomes of the study on factors of fragility, to avoid the risk of a new crisis; (ii) strengthening the State's capacity to develop its NDP, taking into account the issue of inclusive green and climate-resilient growth; (iii) restoring rural infrastructure and basic social services to mitigate the socio-economic impacts of the crisis, strengthen the resilience of target communities and regions to shocks and natural hazards; and (iv) strengthening the transparent management of public resources and the creation of an environment conducive to private sector activities, in an effort to participate in the economic recovery and create jobs (particularly for young people and women in rural areas. These initiatives will complement those of other partners, also aimed at mitigating the factors contributing to the country's fragility (see Section 2.3.2).

Box 4: Key Factors of Fragility Highlighted by the Study on Madagascar's Fragility

Factors related to physical geography: *The low capacity of the State given the sheer size of the territory, the nature of the terrain and climate*, and the low population density, on the one hand, and the recurrence of natural disasters (cyclones and floods), on the other, are the main barriers to regional planning and infrastructure development. With an average score of 6.62 out of 100, Madagascar is ranked 49th out of 53 countries on the Africa Infrastructure Development Index. In the agricultural sector, production and marketing infrastructure is inadequate and in a poor state. In terms of road transport, the country has less than 10 km of paved road per 1 000 km^2. Lastly, energy is both unreliable and inaccessible, considering that only 12% of households have access to electricity (40% in urban areas and 5% in rural areas). Over time, the weak presence of the State at the grassroots as a result of devolution, without a compensatory decentralisation process, has encouraged the development of insecurity and illegal exploitation of natural resources in remote and isolated areas. Exposure to shocks caused by natural disasters is also a major challenge, given that 25% of the population is exposed to these hazards which absorb 4% of GDP. In this regard, priority measures should aim to strengthen decentralisation and regional development, public security and the population's resilience to climatic shocks and natural disasters.

Policy, institutional and security factors: The main cause of the country's fragility lies in the weakness of the democratic process, fostered by the lack of independence and neutrality by the higher institutions of the Republic (Justice, Defence Forces and Security, and Administration). The combination of these factors creates political crises, making access to economic rent a far more important issue than maintaining the balance of the nation-state. Priority actions should aim at strengthening the State's resilience through support for the democratic process, reform of the judicial and security system, as well as strengthening of political and social dialogue, transparency and accountability.

Economic and financial factors: As a result of physical and political conditions, and the country's poor economic choice the growth of the Malagasy economy is structurally weak and slow, due to low capital accumulation and inappropriate use of capital. The rate of investment (public and private) is less than 15% per year in the long term, with low total productivity factors and accelerated decline. The growth rate of agriculture - the main source of growth - has not exceeded 2.5% over the long term. Moreover, the public finance management system is characterized by a structurally low tax rate (below 11% in the long term) and weak oversight/accountability mechanisms, while corrupt practices have increased. The NDP and the new strategy for the reform of the country's finances should help to correct these weaknesses. In the industrial sector (agro-industry, mining and industrial free zone activities), which requires significant investment from private sources, the business environment is constrained by political instability, growing insecurity, deteriorating infrastructure and lack of economic visibility. Hence, the country's business competitiveness and ability to attract international investment are undermined.

Social factors - poverty and inequality: The incidence of poverty is high, with approximately 71.7% of the country's population living on a national income threshold of about USD 0.64 per day per person and 92% on less than USD 2 per day per person, which is challenging for the consumption and investment trend required to accelerate growth. Food insecurity remains high and affects one in four Madagascans. The high poverty rate and low budget resources reduce access to education, basic health care and safe drinking water and sanitation, thereby deepening the inequalities spawned by tensions and social fragility. To reverse the poverty trajectory, it would be necessary to strengthen the population's resilience through policies and strategies aimed at promoting strong and inclusive growth.

Strengths and Opportunities

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2.2.4. Tourism, a promising sector: In the area of tourism, Madagascar has many advantages to capitalize on, given the diversity of the country's tourist attractions, the "affordable" prices and its unique natural heritage. The country also has nearly 5 000 km of coastline. Opportunities in terms of sustainable tourism or eco-tourism may be developed if political stability, hotel infrastructure, security conditions and air transport services are improved.

2.2.5. Huge agricultural and agro-industrial potential: Madagascar has 99% of land in the Indian Ocean region, of which 90% may be used for agriculture. Given that the other islands of the Indian Ocean Commission (IOC) are small and net importers of food products, Madagascar could be the region's breadbasket. The food industry that relies on the abundant local raw materials recorded substantial growth despite the crisis. To promote this potential, Madagascar should develop sustainable land and water management practices, while improving agricultural productivity and land tenure security. The Mid-West Young Rural Enterprise Project (PROJERMO) supported by the I-CSP, will help to develop the region's agricultural potential, with a view to enhancing food security in the country and in the Indian Ocean region. PROJERMO targets the same areas as the IOC Regional Food Security Project[13].

[13] The IOC regional project aims to increase the production of rice, maize, onion and beans in three regions of Madagascar (Sofia, Vakinankaratra and Menabe) to meet the needs of the other islands. The approach proposed by the Bank, aimed at professionalizing rural stakeholders through the promotion of agricultural entrepreneurship, is also encouraged by the IOC.

2.2.6. Cheap Labour: Labour supply in Madagascar is abundant, cheap and known to be relatively productive, which gives the country a comparative advantage in export-oriented manufacturing (for instance in the textile sector that accounts for the bulk of free zone exports), where the production of goods requires abundant unskilled labour.

2.2.7. Abundant and diversified natural resources[14]. While renewable resources are already being heavily exploited, non-renewable resources are under-exploited. Madagascar's extractive sector is being transformed from a largely artisanal mining industry into a large-scale mining industry. The country is also becoming an oil producer[15]. Therefore, Madagascar may use these resources to carry out major structural changes in its economy, thus making them the engine of development, while ensuring their sustainable exploitation.

2.2.8. Resumption of international cooperation and return of private investors: The return of constitutional order in Madagascar paved the way for all PTFs to resume cooperation with the country. The private sector could increase its investment substantially if the confidence-building and investment-friendly measures are effective. In this respect, the fact that Madagascar was once again declared eligible, on 26 June 2014, for the African Growth and Opportunity Act (AGOA), offers an opportunity for development of the textile industry, especially as more than 85% of textile exports were destined for the American market.

2.2.9. While counting on the dynamics of the combined effects of these advantages, the Bank will focus on the country's agricultural potential, agro-industry and abundant natural resources, in support of the revival of inclusive and green growth.

2.3 Recent Developments in Aid Coordination/Harmonisation and AfDB's Positioning in the Country

Aid Coordination Mechanism

2.3.1. With the normalisation of the political situation, the Government is striving to regain the leadership of aid coordination at both the global and sector level[16]. The Permanent Technical Secretariat for Aid Coordination (STPCA), attached to the Prime Minister's Office, is responsible for coordinating the implementing the Paris Declaration and the Busan Global Partnership. During the crisis, the Strategic Dialogue Group meetings between the Government and the Heads of Mission and Cooperation were irregular and focused on resolving the crisis. The Bank currently assumes leadership of the "Drinking Water and Sanitation" and "Rural Development" clusters. The Bank also takes part in meetings of the International Support Group for Madagascar (GIS) [17]).

2.3.2. In line with its transition support strategy and the international partnership commitment under the New Deal, the Bank will continue to work alongside other partners to strengthen dialogue in order to accelerate the transition towards stability and resilience. In view of the factors of fragility highlighted in Box 4, UNDP and the EU are committed to strengthening the democratic process, as well as the judicial and security system reform. The restoration of basic social services is supported by several partners (EU, WB, UN System, USAID and AFD). Similarly, the partners are jointly supporting inclusive growth and

14 These consist of mineral, energy, fishery and forest resources as well as agricultural products.

15 The country's reserves are substantial and are estimated by the National Office of Mines and Strategic Industries at 1 500 billion barrels and 18 oil companies are currently at the exploration phase.

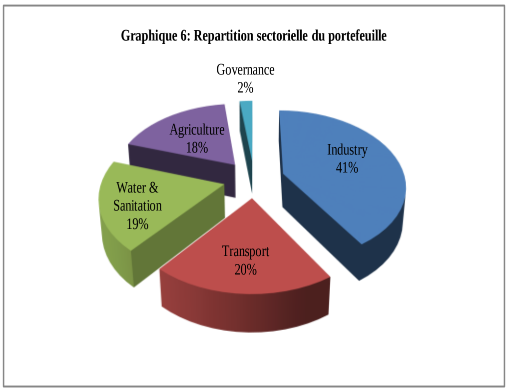
16 In this regard, a meeting of the Strategic Dialogue Group was held on June 5 and was massively attended by members of the diplomatic corps. This meeting was used to formally establish dialogue between the Government and the international community, and to register a strong commitment from partners to support the country's development efforts.

17 This framework aims to coordinate the support of the international community towards national reconstruction and socio-economic recovery.

employment as well as the private sector by strengthening competitiveness and infrastructure (UN System, AfDB, EU, WB and AFD). The World Bank, the European Union, the United Nations System and Swiss Cooperation are helping to strength the decentralisation process, human resources and local development. The fight against the illegal exploitation of natural resources, including rosewood, is supported by the World Bank. Annex VI provides details on TFP support by sector. The Bank's Field Office in Madagascar (MGFO) will enhance synergies with other partners in carrying out the activities under this I-CSP.

2.3.3. The level of fiduciary risk, as assessed in the context of the I-CSP preparation (see Annex X), does not allow the Bank to adopt an approach based exclusively on the use of country procedures and systems. Nevertheless, the Bank is committed to using country procurement systems for national competitive bidding (NCB). To this end, it plans to propose to the Government, through a Letter of Understanding, that its national procedures should be systematically used for national competitive bidding (NCB). In the same vein, the Bank will pursue dialogue with the Government and other stakeholders to improve the national procurement framework. It will continue to support the reform of the PFM system, through various instruments, with the ultimate goal of using national procedures and systems.

The Bank's Positioning in Madagascar



2.3.4. The Bank's active portfolio represents a volume of UA 248.37 million, comprising 10 public sector projects, funded to the tune of UA 142.96 million, and three private sector projects costing a total of UA 105.41 million. Compared with the July 2013 portfolio review, three new projects have been added (PRIASO, PAIR and the Institutional Governance Support Project - PAGI), and are currently in their start-up phase, while two older projects have been closed. The breakdown of the portfolio by sector is provided in Figure 6.

2.4. Portfolio Performance

2.4.1. The public sector portfolio has been considerably rejuvenated. Its average age has dropped from 4.4 years in 2013 to 3.08 years in 2014, following the approval of three new projects in 2013 and the closure of another project. For these same reasons, the disbursement rate stood at 23.69% in June 2014 and the number of older projects went from 3 to 2. The portfolio contains two projects-at-risk[18]. These risks, related to the lack of PPF disbursement, were mitigated following the first disbursements in August 2014.

2.4.2. The outcome of the portfolio performance review is highly satisfactory, with an overall score of 2.38 out of 3, compared with a score of 2.04 out of 3 for the 2013 review. This improvement is due to the successful implementation of the Portfolio Performance Improvement Plan prepared in the wake of the previous review (see Annex IV) and especially thanks to close monitoring by MGFO. Thus, the training initiated for project implementation units (PIUs) and the close monitoring provided by MGFO allowed for better control of the procurement process and the financial management practices of PIUs as well as improved performance of worksites. However, delays in signing contracts at government level, the irregular payment of own domestic resources (ODRs), poor management of the procurement process and inadequate project monitoring/evaluation are among the main constraints highlighted by this review. The implementation of the revised portfolio improvement plan presented in Annex V will help to address these weaknesses. The Bank's September 2014

[18] This relates to the PPF for the Bas Mangoky II Project Study and the Mid-West Young Rural Enterprises Project Study (PROJERMO).

dialogue mission afforded an opportunity to ascertain that line ministries had taken measures to ensure timely disbursement of national counterpart resources and to stress the importance of the monitoring and evaluation function in Bank-financed projects.

2.4.3. According to the current approach, private sector operations were not taken into account in portfolio performance evaluation. The disbursement rate of this portfolio stands at approximately 99%, with an operating performance deemed highly satisfactory for the Sahanivotry Hydro Power Project and the Ambatovy Nickel and Cobalt Project, although these projects are classified as risky[19]. On average, the first project accounted for 9% of the country's energy production and paid taxes amounting to USD 4.3 million in 2012. The second is the country's largest investment project (USD 6.7 billion), creating nearly 18,500 jobs during the construction phase and 9,500 jobs in the operational phase. It also paid a total of USD 49.7 million in taxes, fees and charges between 2011 and 2012.

2.5. Outcomes and Lessons Learned from the Previous Strategy

The outcomes of the previous strategy were deemed satisfactory for the first pillar (rural infrastructure) and mixed for the second pillar (governance). Throughout the crisis, the Bank did not suspend its assistance to the country, which it provided within the context of two extensions of the 2005-2009 Country Strategy Paper approved in October 2005 (the first up to 2011 and the second up to 2013. The CSP two pillars sought to improve the quality of rural infrastructure and enhance governance. According to the strategy completion report approved by CODE on 15 April 2014, the Bank's strategic positioning in Madagascar was deemed relevant overall. The Bank demonstrated a great capacity to adjust to the political crisis and respond to the recurrent natural disasters that have racked the country. The Bank's interventions have led to the increase of: (i) rice production (nearly 38,485 tonnes with an average yield of 6.1 t/ha), diversification of crops farmed (cassava, maize and Cape peas) and improvement of farmers' income; (ii) fish production (about 17,459 tonnes in the PACPT region), seaweed [20] and sea cucumbers; and (iii) the drinking water access rate by 7.04% and sanitation access rate by 6.72% in rural areas covered by the RWSS Programme. However, the political crisis limited the scope of the outcomes achieved under Pillar II because it caused the cancellation[21] of a number of operations that should have supported major reforms. Nevertheless, Bank-funded operations led to some improvement in public finance management (PFM), particularly in the area of internal revenue and procurement. The above outcomes were corroborated by the independent evaluation of AfDB-Madagascar cooperation from 2002 to 2012 conducted by the Bank's Independent Evaluation Department (IDEV), whose report is scheduled for CODE's consideration in October 2014. The key lessons and insights from this evaluation and the previous CSP completion report are summarized in Box 5.

[19] This classification relates to arrears owed by the national electricity company (JIRAMA) to the Sahanivotry Project (approximately USD 7.7 million at end-July 2014), the VAT refund arrears owed by the State to Ambatovy Company (approximately USD 174 million at end-July 2014) and the non-issuance to this company of the final license to operate. The I-CSP Dialogue Mission, fielded from 8 to 11 September 2014, noted that progress had been made in solving these problems. For instance, the Ministry of Finance and Budget had signed arrears clearance agreements with Sahanitotry and Ambatovy. Furthermore, the Minister of Strategic Resources informed the Mission that a solution had been found concerning the granting of a final operating license to Ambatovy and that a written notification to this effect would be issued to the company.

[20] The PACPT project has increased the production of seaweed from 11 tonnes in 2010 to 110 tonnes in 2012 and the development of sea cucumber farming which may fetch up to EUR 700 per group of 5 fishermen for a crop season lasting from 8 to 12 months

[21] This is the second half of the Budget Support Programme (UA 30 million), and FAPA Grant of USD 625 000 originally intended for the implementation of the EITI.

Box 5: Key Lessons and Insights from IDEV's Independent Evaluation and the CSP 2005-2013 Completion Report	
Recommendations	**Actions already taken or to be taken under the I-CSP**
Be more selective in the choice of the strategy's focal areas.	Only two areas were identified in the I-CSP (rural infrastructure and governance), with greater selectivity within each pillar.
Better define the outcomes in the future country strategy, especially under its logical framework.	The I-CSP logical framework was better defined (see Annex I) and focused on measurable outcomes.
Better integrate private sector operations in the CSP by focusing on the synergy of its various aspects.	The I-CSP focuses on creating an enabling environment for private sector activities and promoting agricultural entrepreneurship in rural areas. Current operations financed through the private sector window and from the private investment fund have been well described. Strategic reflection (Private Sector Profile Study) is planned for 2016 to better focus future Bank interventions in this area.
Reduce the splitting of good governance support by being more selective in the choice of priorities and by designing institutional enhancement projects and targeted reform programmes.	Based on the country's needs and in complementarity with other development partners (§332-334; 341-343), the interim CSP 2014-2016 selectively identified reform and institutional enhancement priorities.
Strengthen support for improving rural infrastructure, with special focus on sustainability.	In addition to strengthening the on-going dialogue in this area between the country and TFPs, there are also plans to conduct a road maintenance study and a pilot study on the establishment of an Irrigation Systems Maintenance Fund (FERHA) in the South-West region.
Focus on reducing risks related to the primary causes of fragility in Madagascar in order to strengthen the country's resilience to political crises and natural disasters thanks to analytical work and policy dialogue.	The Bank provided support for conducting the MDG National Monitoring Survey and carried out the Study on Madagascar's Fragility, both of which provided input for preparing this I-CSP and the country dialogue. A study is ongoing on the current status of and opportunities for green growth, which will guide the country in addressing this issue in its National Development Plan (NDP) and inform the Bank's future CSP.
Focus on strategic economic ties between Madagascar and other countries of the Indian Ocean.	The I-CSP provides for the identification of integration-friendly projects in the IOC region in view of Madagascar's central position in this sub-regional space (§3.4.9).
Continue to ensure close monitoring of projects by MGFO, through sustained dialogue with the country, paying special attention to the quality of projects at entry and to procurement and financial management regulations.	Continuous activity by MGFO; systematisation of project preparation studies to ensure the quality of projects at entry; project implementation units were provided several training sessions on financial management and procurement (§2.4.2).

III. BANK GROUP STRATEGY FOR MADAGASCAR

3.1 Rationale for Bank Group Intervention and Pillars

3.1.1 Madagascar's return to normal constitutional order and the undertaking by the new authorities to create a peaceful political atmosphere as well as strengthen the rule of law and public security have helped to reboot the country's development process. One of Madagascar's stated priorities is to restore basic social services and sustainably develop infrastructure to enhance the resilience of communities and regions, and support economic recovery. Cognizant of these challenges, PTFs emphasize the urgent need to transition towards stabilisation and resilience, and are using their commitment as a vector for supporting the Government to prevent the country from sliding back into a new political crisis.

3.1.2. Transition towards resilience: The Bank and Malagasy authorities have agreed on the need to develop an I-CSP for the period 2014-2016. This should mark a transition that would help to strengthen the programme-based and flexible approach of Bank interventions, depending on progress in the preparation of the new NDP. The I-CSP will accompany the implementation of the Environmental Management Plan (EMP) by supporting the strategic thrusts of government action, set out in paragraph 2.2.1.

3.2. Strategic Thrusts

3.2.1. **Participatory approach:** The choice of the I-CSP option and areas of intervention were the outcome of extensive consultation with Malagasy authorities, the private sector and civil society organisations, as well as PTFs during the preparatory and dialogue missions fielded respectively in June and September 2014. During the exchanges, the authorities urged the Bank to provide emergency support to address the pressing needs caused by the crisis and strengthen resilience, especially in the social sector. Civil society and the private sector stressed the need to take into account the governance of natural resources and the promotion of private investment, as these areas would form the bedrock of economic recovery. Lastly, the actors were unanimous in urging the Bank to continue its rural infrastructure development effort in view of the agricultural vulnerability of the regions, the high levels of food insecurity and the country's agricultural potential, while paying special attention to the development of rural entrepreneurship.

3.2.2. **Strategic alignment**: In choosing the areas of intervention, account was taken of: (i) the operational priorities of the Bank's Ten-Year Strategy 2013-2022, which includes governance and infrastructure; (ii) the Bank's New Strategy to Address Fragility and Build Resilience in Africa; (iii) the lessons learned from implementing the previous Country Strategy and the independent evaluation of cooperation between the Bank and Madagascar from 2002 to 2012 (see Box 5); (iv) the evaluation of Madagascar's fragility; (v) the Strategic Framework and the Governance Action Plan (GAP II) 2014-2018; (vi) the Agricultural Sector Strategy 2010-2014; (vii) the Bank's commitment to promote gender equality; (viii) the Private Sector Development Strategy; and (ix) complementarity with the areas of intervention of other PTFs.

3.3. Objectives and Strategic Pillars of the Interim CSP

3.3.1. In line with the objective of the General State Policy (GSP) to *"establish inclusive and sustainable development grounded in inclusive growth, to counter poverty"*, the I-CSP mainly aims *to contribute to the economic and social recovery of the country, in an inclusive and sustainable manner*, by strengthening resilience through good governance and food security. To achieve this objective, it is proposed to focus the Bank's interventions on two pillars: *(i) Strengthening governance to consolidate the State; (ii) Development of rural infrastructure and opening up access to rural areas to reduce food insecurity.*

3.3.2. The strengthening of economic and financial governance is a prerequisite for economic and social recovery, and will help to address a number of weaknesses[22] in the Public Finance Management (PFM) system (these are highlighted in Box 4 dealing with factors of the country's fragility, as well as in paragraph 2.4.10). Special attention will be given to address Madagascar's pressing needs in terms of social and institutional capacity, which were severely undermined during the protracted internal crisis. Moreover, investment in the agricultural sector - which employs nearly 75% of the Malagasy population but contributes only minimally to GDP (around 26%) - is seen as a key lever for ensuring a greener, more inclusive and sustainable economic recovery. The weakness and poor condition of agricultural and transport infrastructure, highlighted among the factors contributing to the country's fragile state, are obstacles that hinder the revival of agricultural production in a context where food insecurity remains a concern.

3.3.3. The choice of these two pillars takes into account the analysis of the country's challenges and opportunities (see 2.2.3 to 2.2.9) and allows for consolidation of the Bank's current interventions in rural infrastructure and governance. Overall, while this choice entails maintaining the same pillars as those of the previous CSP given their relevance to the country's current context, the intervention approach proposed by the I-CSP will be innovative. It involves the systematic management of factors of fragility in Madagascar, within the context of dialogue and new operations planned, with a view to more effectively supporting the country's transition to resilience. Thus, the pillars and outcomes of the I-CSP are viewed through the fragility prism to ensure that the overall objective of the strategy and the specific goals of the operations and priority activities subsequently financed will effectively address that fragility. Special attention is given to cross-cutting issues such as gender, youth employment and resilience to climate change.

3.3.4. The strategic objective of the first pillar is to help the country to *strengthen economic and financial governance and institutional capacity, with a view to creating conditions for a more inclusive and sustainable growth*. This pillar targets the priority challenges of the GSP

[22] These include: (i) the low tax burden level, the low private and public investment rates, the inadequate oversight/accountability mechanisms and budget allocations to basic social sectors; and (ii) corrupt practices and non-transparent management of natural resources.

related to improvement of financial and economic governance, and private sector development. These challenges are also identified in the study on fragility as being the key vectors of fragility. The pillar is also part of Thrusts 1 and 2 of the Bank's Transition Support Strategy, namely strengthening the State's capacity and building efficient institutions, as well as promoting resilient societies to ensure inclusive and equitable access to employment, basic services and the shared benefits derived from natural resources.

3.3.5. The strategic objective of the second pillar is to help the country to *develop its rural infrastructure and open up access to production areas, with a view to supporting economic recovery efforts and improving food security in the country's South-West and Mid-West regions*. The choice of these two regions is justified by the fact that food insecurity is more pronounced in the South-West - one of the country's poorest regions. Moreover, although the Mid-West has huge agricultural potential, that potential is yet to be adequately developed. This pillar addresses the priority challenges of the GSP related to food security among vulnerable segments of the population, job creation in rural areas, revitalisation of rural areas and environmental protection. It is in line with the priorities of the Letter of Rural Development Policy and the Policy Guideline Note of the Agriculture, Livestock and Fishery Sector Programme (PSAEP), which focus on food security, support for economic growth and rural poverty reduction. This pillar is also consistent with the second thrust mentioned above related to the Bank's Transition Support Strategy. In line with the Bank's new Integrated Safeguards System[23] launched on 1 July 2014, investments under this pillar will be carried out taking into account environmental, social and climatic factors to ensure the resistance of infrastructure sensitive to the country's recurrent extreme climatic events. In the same vein, a study on the current status of and opportunities for green growth in Madagascar (including natural resource management) is envisaged as part of this I-CSP.

3.4. Expected Deliverables and Targets

Pillar I: Strengthening Governance to Consolidate the State

13.4.1. The key deliverables under Pillar I are improvement in domestic resource mobilisation and budgetary allocations to priority sectors, reduction of domestic arrears and increase in domestic investment rates. In complementarity with the activities of other PTFs (IMF, WB, EU and AFD) and those already supported by the Institutional Governance Support Project (PAGI) currently being implemented, the I-CSP will target strengthening budgetary management and stimulating private investment. To achieve these outcomes, the following activities have been identified.

3.4.2. **Strengthening budgetary management**: The I-CSP will support reforms aimed at: (i) boosting domestic resource mobilisation, coupled with a phased elimination of fuel subsidies[24] (whose annual cost amount to about 1.5% of GDP); and (ii) improving the quality of public expenditure through increased budgetary allocations for social sectors (health and basic education) that were undermined by the crisis. These measures will help to create the fiscal space required to support efforts to revive the country socially. They will also improve the country's performance under the CPIA indicator related to strengthening human resources, the quality of budgetary and financial management and effective public resource mobilisation.

3.4.3. **Stimulating private investment**: With regard to economic recovery, this I-CSP will stimulate domestic investment through: (i) short-term reforms aimed at clearing domestic arrears owed by the State to the private sector, in order to improve corporate cash flow and support public investment programmes; and (ii) medium-term measures aimed at improving

[23] See ADF/BD/WP/2012/Rev.2/Final of 20 December 2013.

[24] These grants are intended to maintain social peace, but they end up benefiting the rich more than the poor (cf. World Bank study in 2012). The EERP will support the implementation of an action plan for the gradual return to real fuel prices, with temporary targeted support to public urban transport services used by most poor people.

the country's attractiveness to foreign investors, by helping to promote private investment in the country. Special attention will be given to strengthening statistics on growth-bearing sectors (strategic resources, agriculture and tourism) so as to better assess and enhance the economic potential of these sectors. Lastly, the I-CSP will support a study on the private sector profile, to inform the Bank's future interventions in this area.

3.4.4. Reforms will be supported by the *Emergency Economic Recovery Support Programme (*EERP)[25] planned for 2014. Private sector investment will be supported through a new Institution Building Project planned for 2015, which could be implemented in partnership with COMESA's Investment Promotion Agency. The activities planned under this pillar complement those supported by the Institutional Governance Support Project (PAGI) currently being implemented and aimed at: (a) strengthening control systems and the anti-corruption effort; and (b) improving extractive sector governance through support for the Extractive Industries Transparency Initiative (EITI). Over the period covered by the I-CSP, the Bank will explore the possibilities of strengthening the interventions of the African Natural Resources Centre (ANRC) in the country, particularly as regards natural resource management, and the African Legal Support Facility[26] in terms of trade negotiation and establishment of PPPs.

Pillar II: Develop rural infrastructure and open up access to production zones to reduce food insecurity

3.4.5. The planned interventions under this Pillar will not only help to increase agricultural production, the volume of commercial exchanges and small holders' income but also to strengthen food security and reduce poverty in the target regions. To achieve these results, the following activities have been identified.

3.4.6. **Develop and enhance irrigation schemes.** I-CSP will support the sustainable construction/rehabilitation of irrigation, drainage and circulation networks in irrigated areas of the South-West and Mid-West regions. To fully utilize these works, priority will be given to the professionalization of rural stakeholders by: (i) strengthening farmers' capacity to ensure that irrigation networks are efficiently managed and maintained[27], and land protected; also that at least 33% of women household heads have access to land title; and (ii) promoting[28] agricultural entrepreneurship in rural areas to boost productivity and yields, with a view to meeting the food security needs in the country and the IOC sub-region. The Bank will pay special attention to the promotion of rural women entrepreneurs (at least 25% of rural enterprises supported must be owned by women), agricultural value chains and strengthening the population's resilience[29] to climatic and environmental shocks.

3.4.7 Two new operations will focus on these activities: the Bas Mangoky Scheme Extension Project (PRBM II), targeting the South-West region, and the Mid-West Young Rural Entrepreneurs Project (PROJERMO) scheduled for 2014 and 2015, respectively. Synergy will be sought with the interventions of the World Bank and some UN Agencies (IFAD, ILO and FAO). In the long run, the Bank's interventions will coalesce with those of the World Bank to create an integrated growth pole in the South-West region and enhance the region's agricultural and tourist potentials. These operations will strengthen three ongoing

[25] It is a crisis response budget support (CRBS), forming part of the Bank Group policy for programme-based operations (see ADF/BD / WP/2011/ Rev.3 29 February 2012). It is intended to meet the urgent and priority needs of the Malagasy population. The EERP uses the IMF Rapid Credit Facility, approved in June 2014, and is part of a concerted effort with other PTFs (WB, EU and AFD).

[26] A Mission from the Facility visited Madagascar from 28 July to 1 August 2014, to identify potential activities for legal assistance. The primary beneficiaries of this assistance could be the energy and strategic resource sectors.

[27] In this regard, a pilot study is planned in 2015 as part of PRIASO to establish an Agricultural Networks Maintenance Fund (FERHA) in the South-West region.

[28] The promotion of agricultural entrepreneurship in rural areas will be done through: (a) the strengthening of rural entrepreneurs' capacity mostly in financial and accounting management, infrastructure management and farming methods; (b) the development of support services with regard to access to financing; and (c) the development of a robust private sector by promoting agricultural value chains that mostly target agricultural produce processing.

[29] Especially by adopting sustainable land and water management, as well as production practices that are resilient to climate change.

projects: the Supplementary Loan for Bas Mangoky Scheme Rehabilitation Project (PRBM), the South-West Agricultural Infrastructure Rehabilitation Project (PRIASO) and the Emergency Assistance to Locust Control.

3.4.8. Develop access infrastructure to support production: When undertaking agriculture sector interventions, the Bank will support efforts to open up production zones in the South-West region where the agricultural projects it finances are concentrated. In 2016, the Bank plans to finance the second phase of development of National Road No. 9 (RN9) with ADF and ADB-window resources (if the country's eligibility is confirmed), in partnership with other TFPs (BADEA and JICA) (see paragraph 2.1.8). The feasibility study for RN9 Phase II has already been conducted and needs to be updated. The Bank already funds the first[30] phase of this road linking Toliara town to the Analamisampy locality. This road and its adjoining feeder roads will be developed to standard of durability. It will help to boost economic activities in the region, promote commercial exchanges between the region and the rest of the country, develop touristic activities and create several jobs (at least 33% of them for women), thanks to the labour-intensive approach used in the construction of feeder roads. Lastly, to ensure the sustainability of the infrastructure constructed, the Bank will maintain regular dialogue with the country and other partners (EU, WB) on the underlying institutional issues[31] of the road sector and finance a road maintenance study as part of PAIR.

3.4.9. Regional operations. Madagascar is listed in the Regional Integration Strategy Paper (RISP) for Southern Africa (2011-2015), whose mid-term review was conducted in April 2014. Although no regional infrastructure operation has been undertaken in this island nation, it benefits from a regional statistics capacity-building programme[32] implemented by COMESA. With Madagascar's central position in the Indian Ocean, I-CSP will be an opportunity to identify sub-regional projects in the maritime transport, renewable energies and ICT sectors to be considered in the next CSP. In the gender sector, the Bank will use TSF resources to finance a regional project to promote gender equality and women's economic empowerment, as well as strengthen their resilience to violence and the risks of climate change (see also 2.1.16, Box 2) in the IOC sub-region.

3.4.10. Private sector operations: The Bank already finances three operations[33] under the Private Sector Window. During the I-CSP period, it will continue to implement these anchor projects for the Malagasy economy while exploring the possibility of supporting new ones mostly in agro-industry, tourism promotion and natural/energy resource exploitation. Madagascar also benefits from support under certain investment funds[34] in sectors such as microfinance, industrial fishing, production of biological fertilizers, industrial aquaculture of sea cucumber and filling stations. The Bank hopes to continue these interventions during I-CSP.

3.5. Analytical Work Programme

Apart from the study on fragility, the Bank will use this interim period to undertake analytical work to deepen its knowledge on the underlying issue of green inclusive growth resilient to climate change, placing special emphasis on sustainable management of natural resources and renewable energies. This work will help to consolidate dialogue with the country especially during the design of NDP and strengthen the relevance and quality of

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30 This Road Infrastructure Development Project (PAIR) was approved in October 2013.

31 These concern: (i) the replenishment of the road maintenance fund resources; (ii) the financial sustainability of the Madagascar Road Authority; and (iii) compliance with regulations governing axle load.

32 Madagascar participates in the Bank's international comparison programme, thanks to which it benefits from support related to national accounts and prices, expanded since 2010 to cover the collection of data on infrastructure and wages. The Bank also co-financed the conduct of the national 2012-2013 survey to track the MDGs.

33 These are: (i) the Ambatovy Cobalt and Nickel Mining Project that contributes to the promotion of large-scale mining production in Madagascar; (ii) the Sahanivotry Hydro-electricity Project; and (iii) the study on renewable energies at Nosy-Be, financed by a SEFA grant. The purpose of the last two operations is to contribute to promoting the exploitation of the country's renewable energy sources

34 These funds are: PAIP II, Helios II, Africa Agriculture Fund, I&P Management.

operations to feature in the next CSP. In this regard, priority will be given to conducting: (i) the study on the status of and opportunities for green growth in Madagascar; and (ii) the study on the Malagasy private sector profile. Besides, preparatory studies for projects in the water/sanitation and renewable energies sectors[35] will be finalized. Lastly, studies on rural and agricultural road infrastructure maintenance will be conducted during ongoing projects in these sectors.

3.6. Lending Programme and Resource Allocation-related Issues

In view of the magnitude of the country's needs, efforts will be pursued to mobilize co-financing with other partners[36] to implement the 2014-2016 indicative lending programme, attached as Annex II. Resources available for implementing I-CSP are from ADF-13, Pillar I of TSF and the Bank's sovereign window (if the country's eligibility to this window is confirmed). The indicative ADF-13 allocation of UA 49.36 million represents a 20.3% reduction compared to ADF-12. This drop is offset by an additional UA 60 million expected from Pillar I of TSF, subject to confirmation of the country's eligibility to this window during consideration of I-CSP (see Annex VIII). This annex reveals the scale of challenges facing the country in the areas of reforms, economic growth and access to basic services, and confirms the authorities' strong commitment and political will to tackle them. Furthermore, targeted technical assistance and/or capacity-building actions will be identified on other resources such as Pillar III of TSF, the African Legal Support Facility[37] and other fiduciary funds mostly used for analytical work. Climate funds managed by the Bank and from which Madagascar already partly benefits, will also continue to be mobilized.

3.7. Monitoring/Evaluation of the Strategy

I-CSP will be monitored by both the national integrated monitoring/evaluation system (SNISE) and monitoring arrangements instituted for sector strategies and policies in areas covered by the strategy. Annex I shows the monitoring framework of I-CSP implementation overseen by MGFO. Project supervision missions and sector reviews are mechanisms used in monitoring project performance, and hence the achievement of I-CSP objectives. Lastly, as per the new Bank approach based on fragility, I-CSP and new operations now come with technical annexes that capture the country's performance in a context of fragility and its transition towards resilience.

3.8. Key Country Dialogue Issues

During the I-CSP period, the Bank plans to work closely with other TFPs to strengthen dialogue with the authorities and advocacy on: (i) the causes and consequences of fragility, to avoid the risk of a new crisis; (ii) the need to incorporate green, inclusive, climate change-resilient growth into NDP, following the related national workshop organized on 3 June 2014 (see 2.1.18); (iii) portfolio performance improvement focusing especially on lifting constraints to private sector projects; and (iv) the need to address the improvement areas identified in the CPIA, in particular, the poor quality services supplied by Government departments, the absence of public sector transparency and accountability, and inadequate social and labour protection. The Bank's September 2014 dialogue mission already started discussing these questions with the country.

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[35] The Bank and the World Bank plan to accompany Madagascar in preparing an investment plan for renewable energies as part of a programme for the large-scale development of renewable energies. In June 2014, Madagascar was selected as the pilot country of the programme, thanks to Bank support

[36] BADEA, IFAD, JICA, ILO and UN-HABITAT showed interest to participate in financing rural infrastructure (PROJERMO and RN9 Phase II) and COMESA RIA for the private investment promotion support project.

[37] A mission of the Facility visited Madagascar from 28 July to 1 August 2014 to identify potential activities to benefit from legal support.

3.9. Potential Risks and Mitigation Measures

3.9.1. Political and security risk: The failed national reconciliation process culminating in the expulsion of some actors from the process, the instability of Parliament seen in the shift of the majority to the opposition, and the failure to secure the national territory, mostly in rural areas, can jeopardize political stability in the country and the drive towards economic and social recovery. These risks will be mitigated by the new authorities' commitment to creating a climate of lasting political peace, the establishment of an inclusive government of national reconciliation and the technical and financial support of the international community, in particular the United Nations System, aimed at fostering democracy, security and national reconciliation.

3.9.2. Limited resources and weak managerial capacity: Difficulties in mobilising resources can impede the financing of priority social projects and public anchor investments that are crucial to supporting economic recovery. Further, programme implementation in most sector ministries in Madagascar is constrained by weak capacity to manage fiscal affairs, seen in the frequent changes of staff after the new Government was put in place. These risks can be mitigated by: (i) prospects of more external aid; (ii) the commitment of TFPs, including the Bank, to support the country in stepping up internal resource mobilisation; and (iii) stronger capacity for effective and efficient resource use.

3.9.3. Vulnerability to natural disasters and climate change: The country regularly experiences cyclones that cause floods and destroy infrastructure and crops, further exacerbating poverty and food insecurity. Early warning and rapid intervention systems are in place, but their impact remains limited due to weak technical capacity and logistic resources. This risk can be mitigated by TFP support to enable the country to: (a) strengthen the capacity of forecasting agencies to predict and anticipate; (b) strengthen the population's resilience; and (c) develop durable infrastructure - which requires huge financial investments. The Bank will ensure that all new projects comply with the climate safeguard requirements in force since 1 July 2014.

IV. CONCLUSION AND RECOMMENDATIONS

4.1. This interim strategy (2014-2016) is the outcome of a participatory process involving various stakeholders. It is the Bank's appropriate response to assist Madagascar in tackling the urgent priorities for exiting the crisis (especially on the social and economic fronts) and strengthening governance, rural infrastructure and access, which require medium- to long-term investments. Thanks to the strategy, the Bank will also be able to nurture political dialogue through targeted analytical work and more effectively support to Madagascar to prepare its medium-term strategy to which the next CSP will be anchored. By emphasising factors of fragility in the country, it will help to strengthen State and people's resilience in the Bank's spheres of competence, in synergy with the interventions of other TFPs.

4.2. The Boards of Directors are invited to consider and approve this Interim Country Strategy Paper (2014-2016) for Madagascar and the country's eligibility to TSF Pillar I resources.

Annex I – Results-Based Framework of the Bank Group's Interim Country Strategy (2014-2016) for Madagascar

<table>
<tr><th>Development Objectives Defined in the CSP</th><th>Obstacles to the Achievement of CSP Development Objectives</th><th>Final Outcomes Expected at the end of the I-CSP Period in 2016</th><th>Final Outcomes at the end of the I-CSP Period in 2016</th><th>AfDB Interventions to be Implemented during the I-CSP Period</th></tr>
<tr><td colspan="5">PILLAR I: Strengthen Governance to Consolidate the State</td></tr>
<tr><td colspan="5">Outcome 1: Strengthen budgetary management</td></tr>
<tr><td rowspan="2">Strengthen governance, the rule of law and the introduction of equitable justice

Economic recovery through the introduction of a stable social and political environment, preservation of macro-economic stability and putting an attractive business climate in place

Broaden access to quality basic social services</td><td>Weak internal resources coupled with mounting expenditure on higher oil subsidies</td><td>Increase in tax revenue from 9.3% of GDP in 2013 to 12% in 2016</td><td>Priority action plan for increasing internal revenue prepared by the country and implemented

Plan to phase out oil subsidies prepared</td><td rowspan="2">Ongoing
Institutional Governance Support Project (PAGI)

Proposed
Emergency Economic Recovery Programme (PURE)</td></tr>
<tr><td>Weak social indicators induced by the limited resources allocated to priority social sectors (education and public health)</td><td>Rise in CPIA 15 "Strengthening of human resources (education, health and nutrition)" score from 2.3 in 2013 to 3.5 in 2016

Increase in resources allocated to the education and public health sectors under the FY 2014 supplementary financial estimates (20% and 75%, respectively, compared to the initial Appropriation Act) and allocations maintained at the same level at least for these sectors in 2015 and 2016 (corresponding to a minimum of 23% of the total budget for education and 11% for public health)</td><td>FY 2014 supplementary financial estimates and FY 2015 and 2016 Appropriations Acts indicating a rise in budgetary allocations to priority social sectors</td></tr>
<tr><td colspan="5">Outcome 2: Stimulate private investment</td></tr>
<tr><td>Economic recovery through the introduction of a stable social and political environment, preservation of macro-economic stability and putting an attractive business climate in place</td><td>Weak economic growth linked to low national investment (public and private) and an unattractive business climate

Undeveloped economic potential in promising sectors (agriculture, tourism and strategic resources) due to the weak national and sector statistics mechanism</td><td>Rise in GDP growth from 2.3% in 2013 to over 5% in 2016.

Increase in the public investment rate from 2.4% in 2013 to 7% in 2016

Increase in the private investment rate from 15.2% of GDP in 2013 to at least 18% of GDP in 2016

Settlement of arrears owed the private sector

Improvement of statistical information and building of statistical capacity in key sectors of the economy</td><td>FY 2014 financial estimates and FY 2015 and 2016 Finance Laws indicating a rise in budgetary allocations for public capital expenses
Capacity-building programme for the National Investment Promotion Agency put in place

Plan to pay internal arrears prepared and implemented
-Programme for strengthening statistics in key sectors identified for FDI put in place
- Report of the Private Sector Profile Study</td><td>Ongoing
-Institutional Governance Support Project (PAGI)

Proposed
-Emergency Economic Recovery Programme (PURE)
-Institutional Support Programme for Promotion of Private Investments
- Private Sector Profile Study</td></tr>
</table>

Pillar II: Develop Rural Infrastructure and Access to Production Zones to Reduce Food Insecurity				
Outcome 3: Develop and Enhance Irrigation Schemes				
Economic recovery through the introduction of a stable social and political environment, preservation of macro-economic stability and putting an attractive business climate in place Broaden access to quality basic social services	High rural poverty and food insecurity linked to: - the weak and degraded agricultural infrastructure due to the effects of climate change (cyclones, drought, locusts) - Inadequate development of agricultural infrastructure due to the absence of training and professionalization of rural stakeholders, land insecurity and the lack of stakeholder support services	The average farmers' income in the South-West region increases from MGA 1.5 million in 2013 to MGA 1.8 million in 2016 Increase of rice production by 62,000 tons in 2016 Increase in average rice yields in Bas Mangoky from 4t/ha in 2013 to t/ha in 2016. Issuance of land certificates to all scheme farmers, at least 33% of them women household heads 10,000 farmers adopt farming methods adapted to climate change, at least 33% of them women household heads Identification of rural enterprises, 25% of them owned by women, and their capacity-building and support-service needs Identification of three leading farmers by region for the promotion of agricultural value chains	Construction of new irrigation networks (50 km), drainage networks (40 km) and feeder roads (10 km) Training in irrigation techniques, water management and infrastructure maintenance (33% of women household heads) Training in farming methods and use of improved seeds (33% of trainees being women household heads) Issuance of land titles for developed schemes Support for research on drought-resistant seeds PROJERMO evaluation report approved by the Boards - Report on the Study on the Status of and Opportunities for Green Growth - Report on the South-West Agricultural Infrastructure Maintenance Study	<u>Ongoing</u> - Bas Mangoky Scheme Rehabilitation Project – Supplementary Loan (PRBM/PS)/ - South-West Agricultural Infrastructure Rehabilitation Project (PRIASO) - Emergency Locust Control Assistance <u>Proposed</u> - Bas Mangoky Scheme Extension Project (PRBM II) - Mid-West Young Entrepreneurs Project (PROJERMO) - Study on the Status of and Opportunities for Green Growth - South-West Agricultural Infrastructure Maintenance Study
Outcome 4: Develop Access Infrastructure to Support Production				
Economic recovery through the introduction of a stable social and political environment, preservation of macro-economic stability and putting an attractive business climate in place	High rural poverty and food insecurity linked to: - the inaccessibility of the South-West region; - the degradation of the road network ; - poorly developed economic exchanges in the South-West region and with the rest of the country	Increase in the volume of economic activities in the region Increase in the number of tourists Number of jobs created, 30% of them for women	Development of 107 km of road Reconstruction of the Pomay and Befandriana bridge Construction of 16 km of feeder roads Report on the Road Maintenance Study	<u>Ongoing</u> Road Infrastructure Development Project (PAIR) RN9 Phase II Road Maintenance Study

ANNEX II: MADAGASCAR - INDICATIVE LENDING PROGRAMME 2014-2016 (in UA million)

Year	Dept.	Project Name	ADF	TSF	ADB	Potential Co-financiers	Total
2014	OSGE	Emergency Economic Recovery Programme (PURE)	-	25			25
2014	OSAN	Bas Mangoky Irrigation Scheme Rehabilitation and Extension Project - II	16.14	24			40.14
2015	OSAN	Mid-West Young Rural Entrepreneurs Project (PROJERMO)	16.61	8		IFAD, JICA, ILO, FAO and UN-HABITAT	24.61
2015	OSGE	Private Investment Promotion Institutional Support Project		3		COMESA RIA	3
2016	OITC	Project to Develop National Road No. 9	16.51	-	To be determined	BADEA JICA	
TOTAL			49.36	60			109.36

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Indicative Programme of Non-Lending Activities for 2014 - 2016	Financing
2014	
1. Madagascar Fragility Study	ORTS
2015	
2. Diagnostic Study on the Status of and Opportunities for Green Growth in Madagascar	ONEC
2016	
3. Private Sector Profile Study	To be sought

ANNEX III: Bank Group's Portfolio in Madagascar as of 31 August 2014

Nbr Opér°	Projets du secteur public	Date de signature	Date limite de décaisst	Montant net	Décaissement Cumulé 31/08/2014	Taux de décaiss.	Age au 31/08/14 (Nbr
				(En Unités de Compte)			30/06/2014
1	Programme pour l'Appro. en Eau potable et Assaint. en milieu Rural	02/03/2006	30/09/2014	34 426 215,06	26 676 269,23	**77,49%**	**8,33**
2	Prêt complémentaire Bas Mangoky	22/01/2009	31/12/2015	15 000 000,00	3 185 369,50	**21,24%**	**5,44**
3	PPF - Préparation de Bas Mangoky II	14/09/2012	31/03/2015	500 000,00	109 370,00	**21,87%**	**1,79**
4	PPF - Proj. Entrep. Rural moyen ouest	08/11/2012	31/12/2014	450 500,00	33 553,46	**7,45%**	**1,64**
5	Réhabilitation des infrastructures agricoles s.o.	08/07/2013	31/12/2018	24 800 000,00	272 727,67	**1,10%**	**0,98**
6	Aménagement des infrastructures routières	18/11/2013	31/12/2018	46 270 000,00	-	**0,00%**	**0,62**
7	Projet d'appui à la gouvenance institutionnelle	19/11/2013	31/12/2017	4 500 000,00	-	**0,00%**	**0,61**
	TOTAL - FINANCEMENT FAD - FSN (UC)			**125 946 715,06**	**30 277 289,86**	**24,04%**	**2,19**
	AUTRES SOURCES DE FINANCEMENT			*(En Dollar des Etats-Unis d'Amérique)*			
8	Aide humanitaire victime cyclone Bingiza	08/09/2011	31/12/2013	1 000 000,00	1 000 000,00	**100,00%**	**2,81**
9	Aide urgence cyclone Haruna	12/08/2013	31/10/2014	1 000 000,00	1 000 000,00	**100,00%**	**0,88**
10	Aide d'urgence antiacridienne		31/12/2014	1 000 000,00		**0,00%**	**0,25**
	Secteur privé				**En UC**		
11	Ambatovy Nickel project	02/05/2007	22/08/2011	99 535 501,00	99 535 501,00	**100,00%**	**7,16**
12	Sahanivotry small hydro power	05/07/2007	30/06/2008	5 218 480,38	5 218 480,38	**100,00%**	**6,99**
13	Don SEFA pour l'étude des énergies renouvelables	28/01/2013	31/12/2014	654 075,00	115 967,50	**17,73%**	**1,42**

ANNEX IV: STATUS OF IMPLEMENTATION OF THE COUNTRY PORTFOLIO PERFORMANCE IMPROVEMENT PLAN

I. *POOR QUALITY OF PROJECTS AT ENTRY*			
PROBLEMS IDENTIFIED	**ACTIONS REQUIRED**	**RESPONSIBILITY**	**STATUS OF IMPLEMENTATION**
1. Many difficulties facing project implementation stem from the absence of PD and FD studies, as well as errors and omissions contained in project dossiers (under-valued costs, excessive dimensions)	1.1 ***In the short-term***. Modify the list of goods and services to take into account identified errors and omissions	1.1.1 Sector agencies/GVT	Projects resorted to it
	1.2 ***In the long term*** The Bank should allow sufficient time for project preparation and appraisal by multi-disciplinary teams	1.1.2 Sector agencies/GVT/ Country Team	Implemented during the preparation and appraisal of Bas-Mangoky Project II and the Emergency Economic Recovery Project to be presented to the Boards before December 2014
2 *PROCUREMENT*			
PROBLEMS IDENTIFIED	**ACTIONS REQUIRED**	**RESPONSIBILITY**	**TIMEFRAME**
2.1 Unsuitability of procurement method selected	2.1.1 Where necessary, project implementation units and the Bank should change the procurement method	Sector agencies/ORPF/ MGFO	Procurement methods were changed for PAEAR and PRIASO.
2.2 Weak procurement capacity of PIUs	2.2.2 PIUs should ensure that a procurement specialist is recruited within three months of project approval 2.2.3 Immediately following project approval, the Bank should provide satisfactory training on procurement rules and procedures to project managers	ORPF/MGFO/GVT	Implementation units of new projects (PAIR, PRIASO) were trained during project start-up in April 2014. The PAGI implementation unit was trained in September 2014.
	2.2.3 Procurement officers at MGFO should lend permanent proactive support to PIUs for the preparation of bidding documents	MGFO/GVT	Procurement officers organized three trainings for PIUs in addition to continuous support given in case of need. The third training was held in September 2014.
2.3 Lateness linked to the issuance of no-objection notice by the Bank	2.3.1 Further delegate powers to the external consulting firm and regional procurement coordinator.	ORPF/MGFO	Procurement officers play their advisory role to TMs in real time.
	2.3.2 Strengthen the weekly system of monitoring pending files at the Bank	MGFO/ORCE	System put in place and operational.
2.4 Poor performance of successful contractors	2.4.1 Have further recourse to post-qualification in the final award of works contracts.	ORPF/sector agencies	Measure already applied for PAEAR and PAIR projects

ANNEX V- REVISED PORTFOLIO PERFORMANCE IMPROVEMENT PLAN

PROBLEMS IDENTIFIED	ACTIONS REQUIRED	RESPONSIBILITY	TIMEFRAME
1. PROCUREMENT			
1.1 Long delay in the process of signing contracts in Government departments, linked sometimes to insufficient State budgetary resources	1.1 Project implementation units, the Bank and supervisory ministries should hold working sessions with the Ministry of Finance and Budget on the Procurement Plan to ensure that: (i) internal own resources are programmed for financing of these contracts; and (ii) special attention is given to the signing of contracts	PIU/MGFO/GVT	**Immediate**
1.2 Weak PIU capacity to manage contracts	1.2 Procurement Officers at MGFO and ARMP should plan and organize specific training modules on contract management intended for PIUs	ORPF/ARMP	**September 2014**
2.COUNTERPART FINANCING			
2.1 Irregularity and lack of visibility in the payment of counterpart contributions	2.1.1 Government should budget annual resources as counterpart contribution for all ongoing projects 2.1.2 The Bank should continue dialogue with the Government to establish a reliable system for securing funds to serve as counterpart contribution for ongoing projects 2.1.3 The Bank should pursue dialogue with the Government to ensure that the latter applies provisions of loan/grant agreements concerning the exemption of Bank-funded contracts from taxes and customs duty	MGFO/ORCE/GVT/	**Immediate**
2.2 Non-reimbursement of VAT amounts by Government	2.2.1 The Bank should pursue talks with the country to ensure that VAT is paid	MGFO/ORCE/GVT	**Immediate**
3 PROJECT IMPLEMENTATION MONITORING			
3.1 Weak project ownership by Government departments, leading to late decision making	3.1.1 The Bank and the Government should organize quarterly meetings to review the status of ongoing projects 3.1.2 The Bank will initiate dialogue for a structure to be created in the Malagasy Administration and tasked with monitoring projects financed by TFPs	MGFO/GVT	**September 2014**
3.2 Inadequate monitoring/evaluation by PIUs, making it impossible to quantify the impact of projects on the population	3.2 Jointly with the Ministry of Economy and Planning, MGFO should organise training workshops on monitoring/evaluation for PIUs	ORPF/MGFO/GVM	**September 2014**

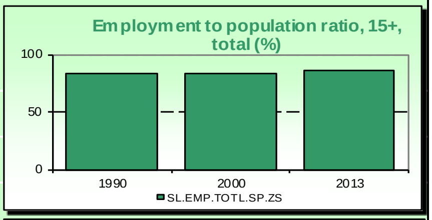
ANNEX VI: SECTORS OF INTERVENTION BY KEY DEVELOPMENT PARTNERS

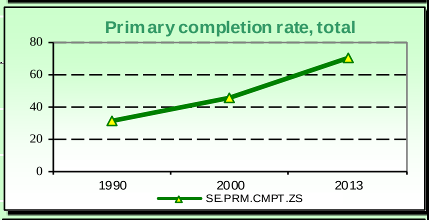
Sector	AfDB	WB	EU	BADEA	UNS	IMF	AFD	IFAD	Japan	Germany	Norway	USAID	Switzerland
Agriculture	X	X	X		X		X	X	X	X			X
Drinking water and sanitation	X	X	X		X				X				
Energy	X	X	X										
Environment		X			X		X						
Mines	X												
Public finance	X	X				X	X						
Governance	X	X	X		X						X		
Education	X	X	X		X		X		X		X		
Health	X	X	X		X		X		X			X	
Transport	X	X	X	X			X		X				
Rule of law			X		X								

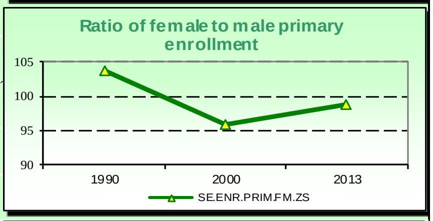
Madagascar

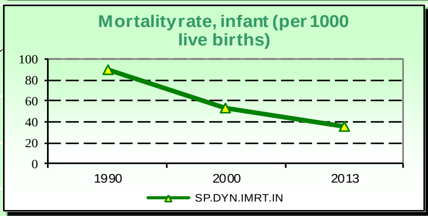
PROGRESS TOWARD ACHIEVING THE MILLENNIUM DEVELOPMENT GOALS

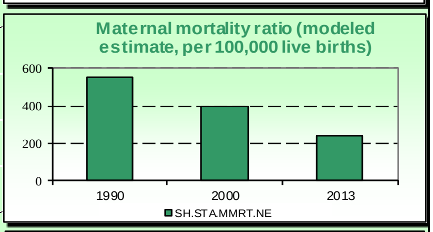
Goal 1: Eradicate extreme poverty and hunger	1990[1]	2000[2]	2013[3]
Employment to population ratio, 15+, total (%)	83,6	83,4	85,5
Malnutrition prevalence, weight for age (% of children under 5)	30,4	36,8	...
Poverty headcount ratio at $1,25 a day (PPP) (% of population)	72,5	76,3	81,3
Prevalence of undernourishment (% of population)	30,3	29,4	33,4
Goal 2: Achieve universal primary education			
Literacy rate, youth female (% of females ages 15-24)	...	68,2	64,0
Literacy rate, adult total (% of people ages 15 and above)	...	70,7	64,5
Primary completion rate, total (% of relevant age group)	31,0	45,5	69,5
Total enrollment, primary (% net)	56,2	77,1	...
Goal 3: Promote gender equality and empower women			
Proportion of seats held by women in national parliaments (%)	6,5	6,9	17,5
Ratio of female to male primary enrollment	103,8	95,8	98,7
Ratio of female to male secondary enrollment	94,4	...	95,4
Goal 4: Reduce child mortality			
Immunization, measles (% of children ages 12-23 months)	55,0	79,0	69,0
Mortality rate, infant (per 1,000 live births)	89,8	53,5	35,8
Mortality rate, under-5 (per 1,000)	135,7	79,9	53,0
Goal 5: Improve maternal health			
Births attended by skilled health staff (% of total)	57,0	51,3	43,9
Contraceptive prevalence (% of women ages 15-49)	18,4	29,2	44,0
Maternal mortality ratio (modeled estimate, per 100,000 live births)	550,0	400,0	240,0
Goal 6: Combat HIV/AIDS, malaria, and other diseases			
Incidence of tuberculosis (per 100,000 people)	196,0	236,0	234,0
Prevalence of HIV, female (% ages 15-24)	...	...	0,1
Prevalence of HIV, male (% ages 15-24)	...	...	0,2
Prevalence of HIV, total (% of population ages 15-49)	...	0,3	0,3
Goal 7: Ensure environmental sustainability			
CO2 emissions (kg per PPP $ of GDP)	0,4	0,6	0,4
Improved sanitation facilities (% of population with access)	9,3	11,6	13,7
Improved water source (% of population with access)	33,5	41,2	48,1
Goal 8: Develop a global partnership for development			
Net total ODA/OA per capita (current US$)	22,3	71,1	18,9
Internet users (per 1000 people)	...	5,3	20,5
Mobile cellular subscriptions (per 1000 people)	0,1	18,8	384,1
Telephone lines (per 1000 people)	2,8	3,3	6,4

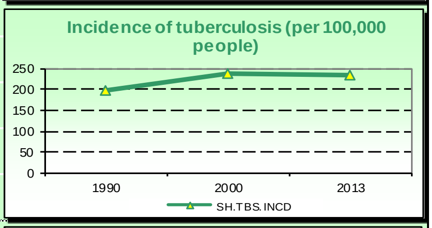


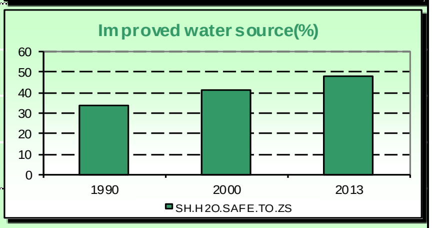


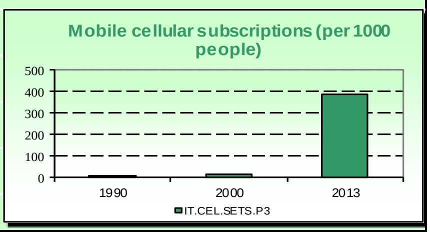












Sources : ADB Statistics Department Databases; World Bank: World Development Indicators; UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports, *last update : October , 2014*

Note : n,a, : Not Applicable ; ... : Data Not Available,

[1] *Latest year available in the period 1990-1995;* [2] *Latest year available in the period 2000-2004;* [3] *Latest year available in the period 2005-2013*

Annex VIII: Assessing Madagascar's Eligibility for the First Cycle of Pillar I – Supplementary Support to the Transition Support Facility under ADF 13

Indicators	First Filtering Criteria
Commitment to consolidating peace and security	• **The political and security situation is becoming normal after significant progress marked by the return to constitutional order. It is characterized**: • (i) Internally, by the conclusion on 11 August 2010 of the Ivato Political Accord between national stakeholders, leading to the drafting of a new constitution, its adoption by referendum on 17 November 2010 and its promulgation into law on 11 December 2010; and (ii) Externally, by the hitch-free implementation of the crisis-exit roadmap concluded by stakeholders in September 2011 with the International Contact Group's assistance, under the supervision of the AU and SADC in an appeased political climate. • Thus, free, overall transparent and credible presidential and legislative elections were held in December 2013 with the support of development partners. The President of the Republic was sworn-in and took office on 25 January 2014, while the National Assembly was commissioned on 18 February 2014. The Prime Minister was appointed in April 2014 and formed a broad-based Government – a sign of national reconciliation and inclusiveness. A parliamentary majority is being consolidated in the National Assembly to support the policy of openness, peace and consolidation of stability preached by the Head of State. It is in this context that Members of Parliament adopted the General State Policy (PGE) Declaration made by the Prime Minister on 10 May 2014. The country now has functioning institutions that are fully recognized by stakeholders and the international community. The process of putting in place new institutions will be completed with the holding of council elections tentatively in the second half of 2014 and senatorial and regional elections in 2015. • **The process of national reconciliation has also been engaged** to enable the political class and elite to give their undivided attention to the major challenge of exiting the crisis in order to consolidate peace and rebuild the State. Based on the findings of the fragility study conducted by the Bank from January to April 2014, the Government showed great interest in tackling the causes of fragility affecting different segments of society. In this process, the support of Technical and Financial Partners is crucial to accompany the political authorities' resolve and support the State and people's resilience in the face of the post-crisis institutional, economic and social challenges, doing so in a new-found appeased political climate.
Socio-economic needs not met	• **Poor economic performance compounded by repeated political crises and the effects of natural disasters are the root causes of deteriorating living conditions in Madagascar**. Real GDP growth rate fell from +3.13% in 1990 to 0.5% in 2010 (2000 constant dollar). The drop is even sharper and faster if we consider the accelerated rate of population growth (+2.94%) and poverty which affects 92% of the population (poverty threshold of USD 2 per day per person; the poverty rate has been growing at 3% yearly since 1989). Extreme poverty affects more than half (52.7%) of the population; social and income disparities are quite high. Although the economy performed well from 1997 to 2001 and from 2003 to 2008, and real per capita GDP averaged 2.1% per year, the 2002 and 2009 crises were so deep (real per capita income contractions stood at 14.87% and 6.61%, respectively) that the gap accumulated during the preceding period and the 2009-2013 period could not be bridged: average per capita income (2005 constant dollar) in 1997-2013 represent 67.6% of the 1980 level, corresponding to USD 411.34. • **With a Human Development Index (HDI) of 0.483 in 2012, the country is still in the last quintile (151st out of 187 countries).** Since most social indicators regressed or stagnated, the country will be unable to achieve most of the Millennium Development Goals (MDGs) in 2015. The net primary enrolment rate dropped from 91.3% in 2009 to 86.3% in 2013. Over 1.5 million children do not attend school and over 50% of health centres have shut down. The rate of attendance of grassroots health centres fell from 37.6% in 2008 to 29.2% in 2013. Less than 15% of the population have access to electricity. Only 48.1% have access to an improved source of drinking water and 13.7% used improved sanitation facilities in 2012. Food insecurity has worsened and affects close to 67% of the population, mainly in the South of the country. • **Youth unemployment and under-employment in general are a major cause for concern**. The country remains confronted by unemployment of young graduates, widespread under-employment in rural areas and precarious urban jobs. The crisis engendered a significant loss of jobs in the industrial and tertiary sectors, and mostly in industrial free zones and the tourist sector. The lack of qualifications is a problem mostly in the industrial sector and advanced services (IT, logistics and process management). The recent announcement of Madagascar's readmission in AGOA will help to create 100,000 jobs in the industrial fabric. • **Much remains to be done to solve land and insecurity problems especially in rural areas.** Insecurity is partly linked to the phenomenon of *dahalos* (cattle thieves), illegal exploitation of natural resources and the effects of natural disasters that affect 25% of the population and cause damage representing 4% of GDP. The precarious state of infrastructure, lack of electricity and transport difficulties are major constraints for the national economy and the population (especially those who walk long distances because of having no access to means of transport). • **Drought, floods and locust invasions disrupt the production cycle and supply of goods** with risks of mild-to-severe food shortage (human and livestock), price hikes, destruction of socio-economic

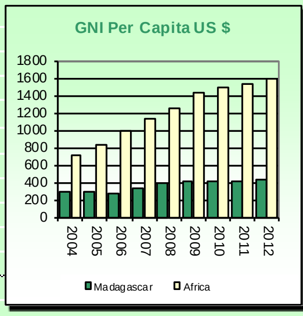
	infrastructure, degradation of ecosystems, and the attendant loss of human life, population displacements and poverty becoming even more endemic. The authorities already conducted the diagnosis with the support of the international community and measures are being implemented. • Contributions already announced by some key partners (IMF, WB, EU) consolidated socio-economic programmes over the 2009-2013 period and stand as proof of the quality of actions contemplated by the Government to confront the magnitude of current challenges.
Indicators	**Second Filtering Criteria**
Improvement of the macro-economic situation and judicious debt policies	• **Since 1997, the country has continued to strengthen its macro-economic base and the framework for managing economic activities. Its two key objectives**, linked to the growth policy, were to: (i) control inflation; and (ii) defend the Ariary. These objectives were more vigorously pursued as from 2009, via a stringent fiscal policy after budget aid and foreign direct investment shrank. The main outcomes were the following: ✓ Inflation dropped from 9.4% on average between 2009 and 2011 to 5.8% in 2012, but climbed slightly to 6.3% in 2013 ; ✓ The Ariary/USD exchange rate fluctuated from 14.9% in 2005 to 7.3% on average between 2008-2010, against 5.78% between 2011and 2012 and 4.7% in 2013; ✓ Taxes, including provisions for VAT, represented 9.3% of GDP; ✓ Despite the higher fiscal deficit (commitment base, excluding grants) of 6.4% of GDP (due to provisions for internal arrears payment), average arrears that accounted for 4.3% of GDP during the crisis period (2009-2013) remained lower than the 2008 level (5.3% of GDP), thanks to the fiscal discipline mentioned earlier. Improvements expected as from 2014 are based on a drop in total spending from 17.4% of GDP in 2008, to an average of 14.3% of GDP between 2009 and 2013, and 13.2% in 2014 ; ✓ The current account deficit (excluding grants) rose from 21.2% of GDP to 5.2% of GDP; ✓ Despite the persistence of domestic arrears (due to the flexibility ratio of prices of petroleum products), the country's level of indebtedness remains low at 35% of GDP, reflecting the post-HIPC performance (after reaching the completion point in 2006). • **The positive outlook of macro-economic indicators and debt as well as the implementation of the crisis-exit roadmap** facilitated negotiations with the Bretton Woods Institutions, particularly the IMF, which granted a Rapid Credit Facility (RCF) of SDR 30.55 million (approximately USD 47.4 million) in June 2014. The World Bank, European Union and the Bank are also currently studying rapid disbursement budget support programmes to back the country's economic and social rehabilitation efforts. • **The current post-crisis authorities were the main protagonists of macro-economic stability** between 2009 and 2013. Their renewed commitment to accelerating the reform agenda is the guarantee and basis of the much-awaited poverty reduction actions and private sector investment programmes.
Practice of sound financial management and restoration of favourable conditions for private sector investment	• Constitutional order having been restored and international recognition regained, the country's **authorities are striving to launch good governance reforms, create conditions for mobilising resources (internal and external) and further attract foreign direct investments.** These reforms are determined by recent diagnoses (auto-evaluation of Public Expenditure and Financial Accountability - PEFA, recent IMF technical assistance missions on public expenditure management and performance of the tax and customs administration) which highlighted the need to strengthen the entire public finance management (PFM) system. Based on its long-term objective of fiscal consolidation and sustainable public finances, the Government of Madagascar concentrated on improving PFM as part of the IMF's Rapid Credit Facility by taking measures to: ✓ Improve the transparency, accountability and good governance of public finances, while allocating more resources to key good governance institutions (General State Inspectorate, General Directorate of Financial Control, Inspectorate of the Treasury and BIANCO) and broadening their authority to further empower them. Further, the Budget and Finance Disciplinary Board will be effectively put in place by October 2014. ✓ Improve budget implementation, follow-up and control by modernising the information management system to allow for better tracking of each stage of the chain, strengthen internal control mechanisms and accelerate the production of financial balance sheets. ✓ Formulate: (i) a short-term action plan (2014-2015) to address priority reforms in PFM; (ii) a medium-term strategy for modernising the PFM system with the support of Technical and Financial Partners, including the Bank. ✓ In terms of governance and the sound management of public finances, two key governance projects are being implemented in consultation with the World Bank and AfDB, the aim being to improve accountability and effectiveness in Government departments. • Reforms were undertaken in the public procurement sector to strengthen the analytical and response capacity

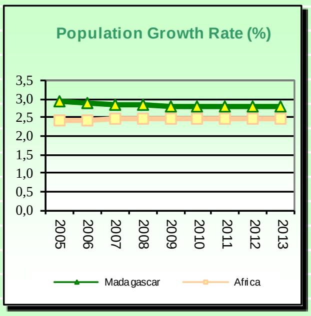
	of organs tasked with public procurement management, control and regulation. New commitments to massive investments and PPP financing will open fresh prospects for reform and progress at the regulatory and legislative level, in terms of concessions and SME access to public procurement. By strengthening the capacity of the Economic Development Board of Madagascar (EDBM), this will contribute to improving the consultation framework between the public sector (system of incentives and justice), private sector and banks. • With regard to the private sector, the highest authorities have shown political commitment to strengthen economic and financial governance through a transparent system of incentives for the private sector, gradually settle domestic arrears, ensure compliance with the rule of law and accelerate land reforms, including ownership rights. ✓ In turn, the representatives of the private sector made cogent proposals in an economic and financial development plan that is fully in line with General State Policy. It seeks to contribute to economic recovery and accelerate green and inclusive growth by at least 10% in the medium term. ✓ The country's openness to foreign capital and investments in growth sectors (mining, tourism, infrastructure and agro-industries) is a concrete sign of the authorities' commitment and a factor of delegation of economic management that will showcase and disseminate good practices of accountability and transparency. ✓ The State also commits itself to fighting corruption by opting for the equitable, strategic and transparent management of natural resources, controlling the illegal trafficking of rose wood and precious stones, and building the capacity of audit and anti-corruption organs. Any elite holding a political or administrative position should declare his/her assets. • **For the authorities, although the bases of growth are the consolidation and modernisation of the State and the strengthening of the capacity of public sector institutions,** its engine is the private sector and foreign direct investments. The obligations of transparency and accountability are evidence of credibility. They are not only central to development actions and partnership building with the international community, the private sector and foreign investors but also serve as a benchmark for assessing government's programme.
Transparency of public accounts	• **Successive PFM assessments between 2008-2013 not only helped to improve planning, forecasts, monitoring, accounting, accountability and resource allocation but also highlighted what the country needed to do to have a PFM system aligned to the relevant international standards. Progress made in that period specifically concerns:** ✓ The match between forecasts and total expenditure although discrepancies persist at the level of the expenditure structure; ✓ The system of nomenclature now complies with international standards. The programme-based classification and appropriate documentation at the central level facilitates stakeholder access to fiscal information; Government departments at the central level have limited control over agencies, public enterprises and local authorities; ✓ In 2013 in particular, efforts were made to improve the transparency and exhaustiveness of the system with precise and clear indications arising from the regulations, obligations and procedures related to the main categories of taxes, dues and customs duties; ✓ A centralized registration system now exists which facilitates tax control, investigations on fraud and penalties; improvements concern data on tax arrears and predicting the availability of resources for the commitment of expenditure; ✓ Annual budget implementation reports are of good quality and should be supplemented with annual financial statements (Draft Appropriations Bill) submitted late: adoption for FY 2007 is in progress. The FY 2008 Draft Appropriations Bill, with its explanatory annexes, was submitted to the Court of Auditors in November 2013. ✓ Arrangements are made to improve surveillance and internal audit of the Court of Auditors and the National Assembly for the two projects funded by the Bank and the World Bank. The external audit of the Court of Auditors has already produced minor results. ✓ The management of municipal public finances falls within the same ambit of the public finance reform strategy that was finalized in 2013 with World Bank funding. • **The progress made will be consolidated by reforms undertaken during the two ongoing and future projects sponsored by the World Bank and the Bank. In 2013, Madagascar was rated 'A' for the two PEFA indicators. Those related to budget classification (PI-5) and total approved revenue versus total revenue (PI-3) and performance in terms of public access to budgetary information remained unchanged between the 2008 and 2013 assessments.** • **The Rapid Credit Facility of the IMF, budget support packages of TFPs and technical assistance and capacity-building projects are appropriate instruments used in accelerating reforms in the areas of transparency, accountability and performance.**

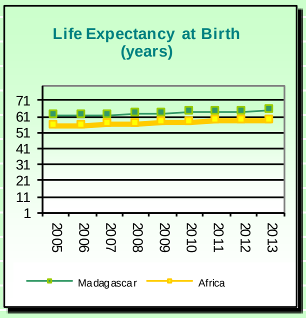
Madagascar

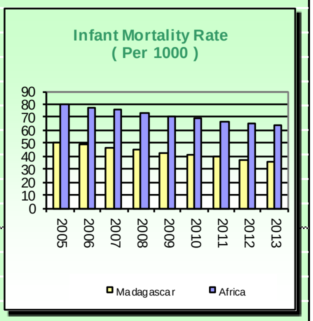
COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Madagascar	Africa	Develo-ping Countries	Develo-ped Countries
Basic Indicators					
Area ('000 Km²)	2011	587	30 323	98 458	35 811
Total Population (millions)	2013	22,9	1 109,0	5 909,3	1 252,8
Urban Population (% of Total)	2013	33,8	40,2	47,7	78,3
Population Density (per Km²)	2013	36,3	46,9	70,7	23,5
GNI per Capita (US $)	2012	430	1 719	3 815	38 412
Labor Force Participation - Total (%)	2012-2013	47,0	37,4	67,9	72,1
Labor Force Participation - Female (%)	2012-2013	49,1	42,5	38,6	44,6
Gender -Related Development Index Value	2007-2011	0,541	0,502	0,694	0,911
Human Develop. Index (Rank among 187 countries)	2012	151	...	...	...
Popul. Living Below $ 1.25 a Day (% of Population)	2008-2011	81,3	40,0	20,6	...
Demographic Indicators					
Population Growth Rate - Total (%)	2013	2,8	2,5	1,3	0,3
Population Growth Rate - Urban (%)	2013	4,7	3,4	2,5	0,6
Population < 15 years (%)	2013	42,4	40,9	28,3	16,4
Population >= 65 years (%)	2013	2,8	3,5	6,1	16,8
Dependency Ratio (%)	2013	82,5	77,9	52,4	49,9
Sex Ratio (per 100 female)	2013	99,3	100,0	103,3	94,4
Female Population 15-49 years (% of total population)	2013	24,0	24,0	53,1	45,2
Life Expectancy at Birth - Total (years)	2013	64,7	59,2	68,4	77,8
Life Expectancy at Birth - Female (years)	2013	66,2	60,3	70,3	81,2
Crude Birth Rate (per 1,000)	2013	34,7	34,8	21,2	11,2
Crude Death Rate (per 1,000)	2013	6,8	10,4	7,6	10,4
Infant Mortality Rate (per 1,000)	2013	35,8	61,9	39,8	5,5
Child Mortality Rate (per 1,000)	2013	53,0	97,4	56,3	6,6
Total Fertility Rate (per woman)	2013	4,5	4,6	2,6	1,7
Maternal Mortality Rate (per 100,000)	2010	240,0	415,3	240,0	16,0
Women Using Contraception (%)	2013	44,0	34,9	62,6	71,3
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2004-2011	16,1	47,1	117,8	297,8
Nurses (per 100,000 people)*	2004-2011	...	132,6	202,7	842,7
Births attended by Trained Health Personnel (%)	2006-2011	43,9	52,6	66,3	...
Access to Safe Water (% of Population)	2012	49,6	68,8	87,2	99,2
Access to Health Services (% of Population)	2000	38,0	65,2	80,0	100,0
Access to Sanitation (% of Population)	2012	13,9	39,4	56,9	96,2
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2012	0,5	3,9	1,2	...
Incidence of Tuberculosis (per 100,000)	2012	234,0	223,6	144,0	23,0
Child Immunization Against Tuberculosis (%)	2012	78,0	83,0	81,5	96,1
Child Immunization Against Measles (%)	2012	69,0	74,0	83,0	94,3
Underweight Children (% of children under 5 years)	2004-2012	36,8	19,7	17,0	1,4
Daily Calorie Supply per Capita	2009	2 117	2 481	2 675	3 285
Public Expenditure on Health (as % of GDP)	2011-2012	2,6	2,9	3,0	7,5
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2012	145,2	101,9	109,4	100,9
Primary School - Female	2012	144,2	97,9	107,6	100,6
Secondary School - Total	2012	38,0	47,4	69,1	100,2
Secondary School - Female	2012	37,1	44,0	67,8	99,7
Primary School Female Teaching Staff (% of Total)	2012	55,5	46,6	58,0	84,3
Adult literacy Rate - Total (%)	2009-2012	64,5	62,0	80,3	99,2
Adult literacy Rate - Male (%)	2009-2012	67,4	70,7	85,9	99,3
Adult literacy Rate - Female (%)	2009-2012	61,6	53,7	74,9	99,0
Percentage of GDP Spent on Education	2011-2012	2,7	5,3	4,3	5,5
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2011	6,0	7,6	10,7	10,8
Annual Rate of Deforestation (%)	2000-2009	1,0	0,6	0,4	-0,2
Forest (As % of Land Area)	2011	21,5	23,0	28,2	35,0
Per Capita CO2 Emissions (metric tons)	2010	0,1	1,2	3,0	11,6









Sources: AfDB Statistics Department Databases; *last update :* *mai 2014*
United Nations Population Division, World Population Prospects: The 2012 Revision;
World Bank: World Development Indicators; UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports.
For any given interval, the value refers to the most recent year available during the period
Note : n.a. : Not Applicable ; ... : Data Not Available.

ANNEX X: FIDUCIARY RISK ASSESSMENT AND BANK'S INTERVENTION STRATEGY

1. Financial Management

1.1. Introduction

The fiduciary framework and risks in Madagascar were assessed in the preparatory phase of the Interim Country Strategy Paper (I-CSP) for 2014-2016. The assessment was conducted by the Bank's Procurement and Fiduciary Services Department (ORPF) during the mission in Antananarivo from 27 May to 3 June 2014, pursuant to the Policy on Financial Management of Operations funded by the African Development Bank and the Directive on Promotion of the Use of National Public Finance Management (PFM) Systems of February 2014. The Fiduciary Risk Assessment (FRA) reflects main lessons from the implementation of CSP 2005-2013 and the context of fragility in the country marked by efforts to exit this long-drawn five-year crisis period. FRA outcomes are based on very recent public finance analytical and diagnostic work undertaken by the Bank and other Technical and Financial Partners (TFP) operating in Madagascar (notably PEFA 2008 and 2013 and the 2012 public expenditure review) and the outcome of talks and consultations held with key PFM institutions: the Ministry of Finance with the Directorates concerned (DGB, DGT, DGI, DGD, DDP, General Directorate of Financial Control (DGCF), Directorate of Programming and Budgetary Adjustment – DPCB, ACCT, General Directorate of Internal Audit – DGAI, Directorate of Governance Strengthening – DRG of the Reforms Coordination GS), the Ministry of Economy and Planning, the Permanent Technical Secretariat of Aid Coordination (STP-CA), the National Development Board (CND), the Court of Auditors (CdC), the General Inspectorate of State (IGE), the Integrity Safeguard Committee – CSI; and the independent Anti-Corruption Office (BIANCO).

The analysis of public finance management system, especially the five selected pillars applicable to finance management in the Guideline '*Promoting the Use of National PFM Systems*' allows for guiding the Bank's decision on whether to use the national PFM system in this interim period. It is a reference framework to guide the financial management of operations that will be prepared and implemented during the I-CSP period. The table summarising the fiduciary risks assessment is presented as annex.

1.2. Status of Public Finance Management in Madagascar

Madagascar's PFM environment is marked by fragility in a period of exit of the long-drawn crisis that led successively to a substantial reduction of external support and a strong contraction of expenditure in priority sectors (education, health) and public investment.

The five-year crisis experienced by Madagascar had dire consequences on public finances. It contributed to further weaken governance and institutional capacity in public finance management (PFM), and negatively affected PFM performance. PFM is characterized *inter alia* by: (i) a weakening of mechanisms for controlling public expenditure and revenue processes; (ii) a weakening or stagnation of transparency, budget predictability and credibility, expenditure efficiency and effective monitoring of budget implementation; (iii) irregularities in bank reconciliation; (iv) significantly late reporting on State accounts (financial statements /draft appropriations bill, which makes it possible to reconcile payment orders established by the budget, with data on payments produced by the Treasury); (v) weaknesses of ex-post internal and external audit; (vi) significant weaknesses in account and cash-flow management; (vii) weaknesses in financial decentralisation and the quality of the Central Administration's oversight on autonomous public agencies, public enterprises and the budgetary status of local authorities; and (viii) limits in the exploitation of the integrated public finance management system (SGIFP). All these elements negatively affect the performance of public finance management.

With particular regard to management of the budget and public funds, weaknesses that had existed before the crisis persist in the internal and external control mechanisms, including the absence of a coordination/consultative platform among the main control organs. Such a platform would further clarify the interventions of the various control organs and make it possible to redefine certain missions such as those of the audit of State-owned enterprises. Furthermore, the profile, training and working materials/tools of staff of audit institutions should be better suited to their mission.

Moreover, weaknesses were observed at the level of public enterprise performance, regulatory frameworks and institutional capacity.

1.3. Fiduciary Risk Assessment and Mitigation Measures

The PEFA indicators show either stagnation or deterioration during the crisis period. The following table shows the variations.

The control environment and public finance management systems in Madagascar have a level of fiduciary risk that is estimated as substantial after implementation of mitigation measures.

The Bank recommends measures to mitigate these risks (see table as annex). The Government should be assisted in implementing these measures, to accompany the country in its efforts to exit fragility and crisis situation.

Summary of Results of PEFA Assessments since 2006

Rating	2006	2008	2013	Remarks
	Number of processes under review			
A	2	3	2	Process mastered
B	4	6	5	Process mastered, with potential for improvement
C	8	10	7	Process exists but results are not compliant/ insufficiently mastered
D	14	9	14	Process implemented is defective or non-existent
Total:	**28**	**28**	**28**	Totals do not include results for processes concerning donors

Planning and Budgeting: Budget Preparation, Implementation and Control

With regard to budget preparation, Madagascar approved its FY 2012, 2013 and 2014 Appropriations Bills on time. The assessment noted: (i) the timid ownership of new medium-term budgetary adjustment and objective-based budgeting instruments by senior staff of Government departments (although LOLF is presented in programme budgeting format, there are no medium-term sector and national expenditure frameworks); (ii) the very short time frame allowed sector ministries to submit their remarks in order to influence budgetary allocations; (iii) the very short time given law-makers to consider the Appropriations Bill and the absence of certain documents (i.e. debt stock) among those submitted; (iii) significant variations in budgetary allocations in the course of the year, modifying the overall budget’s composition; and (iv) the absence of data to monitor the stock of fiscal arrears versus expenditure.

The following observations were noted at the level of budget implementation: (i) payment timeframes for suppliers are long in the expenditure chain, leading to the risk of irregularity at the end of the fiscal year and payment before service rendered in the last quarter; (ii) regularisation and non-compliance with relevant rules after recourse to waiver of expenditure execution procedures is a cause for concern; (iii) absence of an IT guideline incorporating the integrated public finance management system (SGIFP) for deployment to all regions; and (iv) poor financial execution of allocations to priority sectors. Budget credibility is also tainted by the low level of revenue execution. In terms of budgetary control, expenditure for which a waiver of procedures was requested eludes prior control and the proportion of under-the-line operations compared to real total expenditure remains high.

The fiduciary risk linked to this planning and budgeting pillar is deemed high.

Treasury and cash flow management

A Treasury Plan is prepared at the start of every fiscal year. So cash-flow forecasts are made with the desired frequency. Generally, significant adjustments in budgetary allocations are made once every year by the

Minister for Finance and Budget, after the opinion of ministries and institutions. However, the quarterly commitment ceilings set out in the MFB circular do not always match forecasts and are largely exceeded. Hence, the information that is communicated to ministries and institutions at the beginning of the fiscal year for the commitment of their expenditure is not always reliable.

The balances of most accounts managed by the Treasury are calculated daily and consolidated at least every week, with the exception of certain below-the-line accounts (EPA accounts, project funds sponsored by donors especially).

The fiduciary risk linked to this treasury and cash-flow pillar is deemed substantial.

Accounts and financial reports

Operations are accounted for using the Accounts Chart of Public Operations (2006) inspired by the IPSAS international accounting standards. The quarterly frequency of publication of Budget Implementation Monitoring Documents (notably the Presentation Note summarising the performance of indicators, the Performance Monitoring Document, the Budget Monitoring Document and a Project Brief) is generally respected. The Directorate of Budget Execution and Synthesis also prepares a quarterly report (Budget Execution Tracking) for the 40 institutions of the Central Administration.

With regard to accounts and financial reports, the assessment notes the deterioration in quality and compliance with deadlines of annual financial statements, due mainly to the accumulated lateness in the preparation of the General Account of Financial Administration (CGAF), by the General Directorate of the Treasury and the Draft Appropriations Bill.

The quality level and timeframe for producing annual financial statements leaves much to be desired. The last three Draft Appropriations Bills received are for FY 2004, 2005 and 2006. They were passed by Parliament on 21 June 2007, 3 July 2008 and 17 December 2008, respectively. The Draft Appropriations Bill for FY 2007 is in the process of adoption.

Thus, structural weaknesses remain: (i) financial information is not exhaustive and available in real time; (ii) certain imprests awaiting funds have very old and quite substantial balances carried forward but not adjusted during the fiscal year; therefore, all operations of the year are not always reconciled before the close of the year; (iii) accuracy of project implementation data and, in particular, data on external financing is a cause for concern; (iv) accounting information on operations financed by the Bank and other TFPs is difficult to capture; (v) regional structures have very little access to existing information systems and do not have direct and regular access to central databases for exchange of information in real time; (vi) data presented in available reports on the execution of budgetary expenditure is neither exhaustive nor totally reliable; (vii) information systems do not cover all public finances and are not sufficiently integrated and accessible to all users.

The fiduciary risk linked to this accounting and financial reports pillar is deemed high.

Internal control and audit

The internal control/audit system has many deficiencies and contributes marginally to fighting fraud and corruption. Institutional weaknesses coupled with significant shortage of human (in quality and quantity) and financial resources, and weak implementation of audit recommendations and judicial follow-up of offences reported make it difficult to control service rendered and ensure accountability in public finance management. Sanctions related to PFM offences continue to depend on the response of the penal authorities.

The creation of a General Inspectorate of Finance (IGF) provided for by decree since 2004 is still not effective. Similarly, the Budget and Finance Disciplinary Board (CDBF) is not yet operational. All these weaknesses are even more pronounced in the regions due to lack of infrastructure and human resources. The absence of a dialogue platform for the different control organs in Madagascar is also a major weakness.

The fiduciary risk linked to this internal control and audit pillar is deemed high.

External Audit and Anti-Corruption

The Court of Auditors (CdC) – the Supreme Audit Institution (SAI) of Madagascar – still suffers from a shortage of magistrates, auditors and financial resources to accomplish its mission.

Regular consideration of annual Appropriations Bills and external audit reports by the legislative branch is not systematic and falls far behind schedule. The monitoring arrangement of CdC audit recommendations is not formalized and/or materialized, and external audit covers only a limited portion of its field of control. It audits only half of total expenditure and operations financed by the Bank are not included. As accounts and the draft Appropriations Bill report are submitted late for judgment, the Court currently exceeds statutory timeframes in fulfilling its obligations of verifying financial statements. Further, in June 2014, draft Appropriations Bills for FY 2008, 2009, 2010, 2011, 2012 had not yet been passed by Parliament. Such weaknesses as described above render jurisdictional control more difficult.

Corruption
The 2013 Corruption Perception Index (CPI) of 2.8 on 10 in Madagascar led Transparency International to rank it 127th out of 177 countries. Madagascar has an independent Anti-Corruption Office – BIANCO – established in October 2004 to implement the national anti-corruption strategy prepared by the Higher Anti-Corruption Council in 2003 (now called the Integrity Safeguard Committee – CSI).

Initiatives are uncoordinated at the sector level, making the country more fragile. Effort and strong political will are needed to clean up the PFM environment while ensuring better coordination of all sector activities. It is equally important for a credible system of deterrents and punishment to be put in place and enforced.

Illicit trade in rose wood is a major cause for concern. At the ethical level, the declaration of assets by senior officials pursuant to Sections 40 and 41 of the Constitution still has to be implemented. In this context, the regulatory and legal framework of the anti-corruption arrangement should be revised and strengthened to bring it into greater alignment with international standards on money laundering and the fight against terror.

The fiduciary risk linked to this external audit and anti-corruption pillar is deemed high (substantial after mitigation).

Elements for mitigating this risk are indicated in the detailed country risk analysis table presented at the end of this annex.

1.4. Bank's Fiduciary Strategy in Madagascar for the I-CSP period

Level of use of the national public finance management system

In keeping with the provisions of the Paris Declaration on Aid Effectiveness (2005); the Accra Action Plan (2008); and the Busan High-Level Forum on Aid Effectiveness (2011), the Bank's decision to use or not use the national public finance management system was taken based on an assessment of the country's system, Bank guidelines, practices and risk tolerance as well as national preferences and other factors such as the governance and corruption perception level. This consideration revealed that the risk level as assessed does not allow the Bank to base its approach exclusively on national procedures and systems. However, the Bank will continue working alongside Technical and Financial Partners (TFP) to support PFM system reforms through various instruments, so as to ultimately use mainly the national procedures and systems. The Bank will own the "New Deal" objectives concerning Fragile States in order to help Madagascar to gradually exit its fragile state and the prolonged crisis.

Resources earmarked under the indicative lending programme will be used pursuant to Bank rules and procedures. All operations will be audited annually by an independent firm and the involvement of the General Directorate of Internal Audit (DGAI) in each project's internal audit arrangement will be considered during the appraisal phases of operations.

Financial management arrangements will be considered during appraisal missions. In choosing the institutional anchoring of projects, a minimum arrangement will be required at operations entry. The Bank's anti-fraud and corruption arrangements will be used and sanction mechanisms strictly applied. Audit reports will be regularly published and completion reports of operations should include the closing audit findings. The Bank will limit the number of independent management units created and operations will preferably be executed by the project implementation units in perennial Government departments; such departments will have a fiduciary capacity-building mechanism and benefit from Bank support via close monitoring by the Madagascar Field Office. For emergency or reconstruction operations, financial management safeguards will be proposed on a case-by-case basis.

With regard to budget support operations, the budget support instrument that responds to crises will be used during the I-CSP period. Any other budget support operation during the said period will be considered on a case-by-case basis. The fiduciary risks that the Bank must address during programme-based support must not be under-estimated. Each proposed operation will be subject to evaluation and adequate measures (if applicable) for mitigating the fiduciary risks specifically identified for the operation proposed. Reforms envisaged during budget support operations should include the finalisation of reforms of the expenditure and revenue chains, continuation of the public accounting reform, complete overhaul of internal and external audits and the update and strengthening of the integrated public finance management system (SIGFP).

Bank resources used for any other budget support operation will be systematically audited through consideration of the Accountability Laws by the Court of Auditors, which will be published within the legal deadlines in force in Madagascar. The Bank will reserve the right to demand an audit of financial flows of support packages and/or the performance of programmes it deems necessary. The said financing (as well as other external financing) will be systematically included in the State budget (these resources will be included as a budget line item corresponding to External Resources). Written confirmation must be received from the Government for any transfer of the said amounts from the Treasury account to the Malagasy Central Bank (BCM), indicating there on the exchange rate applied. The account receiving the operation amount will be domiciled at BCM, and will be part of the country's foreign currency reserves.

Financial management actions envisaged specifically for this strategy hinge on Pillar I (Strengthening governance to consolidate the State), and more specifically, strengthening control organs especially CdC, IGF, DGCF, DGAI, CSI and BIANCO, and strengthening the accounting profession.

Based on different diagnoses (PEFA, Public Expenditure Review, etc.), short-, medium- and long-term support in Madagascar should engage a reform policy and rehabilitate PFM. The priority measures that might be contemplated here include: putting the Budget and Financial Disciplinary Board (CDBF) in place; conducting a targeted review with partners to phase in the use of national PFM systems (short term); and undertaking and accelerating public finance reforms by formulating/designing a plan or strategy to modernize the PFM system (medium / long term)

2. Procurement

2.1. <u>Legislative and regulatory framework</u> **-** The legal framework of public procurement in force in Madagascar is based on Law No. 2004-009 of 26 July 2004 and arises from the conclusions of the analytical report on procurements (CPAR) completed in 2003. The Bank considered the Public Procurement Code in 2011 and concluded that Malagasy procurement procedures via national bidding are compliant overall with Bank Procurement Rules and Procedures despite some discrepancies with the Bank's fiduciary requirements. These discrepancies and measures required for compliance are indicated in the following table.

Discrepancies Observed	Compliance Measures
Scope of application: Section 3(II) of the Code does not authorize the use of financing coming from international organisations	Revise this provision of the Code and specify that it applies to contracts financed by international organisations
Participation of public enterprises: The Code does not have provisions on the eligibility of public enterprises for bidding procedures	To avoid any situation of conflict of interest or unfair competitive advantage, it is necessary to clearly indicate that Malagasy public enterprises can participate in bidding only if they can establish that: (i) they enjoy legal and financial autonomy; (ii) they are managed according to the rules of commercial law; and (iii) are not agencies that depend on the Borrower
Participation of groupings: The "joint" form of grouping mentioned in the Code has risks for the Contracting Authority	Only the "joint and several" grouping as mentioned in the Code can participate in bidding
Eligibility of foreign bidders: The Code does not specify whether foreign bidders can participate in national competitive bidding	State explicitly in the Code that foreign bidders are authorized to participate not only in ICB but also in NCB
Correction of computing errors: Evaluation of bids (works) :	Provide for the need to correct computing errors to the contract price and lump-sum

Pending revision of the Code to incorporate these improvements, the Bank plans to draft a Letter of Understanding with Malagasy authorities for national procurement procedures to be used during national competitive bidding for Bank-funded projects.

2.2. Institutional Framework – Instituted by Decree No. 2005-215, the Public Procurement Regulatory Authority (ARMP) is the centre-piece of the institutional arrangement of public procurement. ARMP is headed by a general manager responsible for the administration and coordination of all these activities, including regulation and control. ARMP comprises a Regulation Committee tasked with defining procurement policies, independent audits, capacity-building, etc., and a National Procurement Committee (CNM) which supervises the procurement process (preview, ex-post review). The institutional arrangement also provides for the position of Public Procurement Officer (PPO) who monitors the procurement process and especially controls the quality of procurement dossiers. He/she is also empowered to control and approve contracts below the CNM's competence thresholds. The PPO chairs the tenders board and signs contracts on behalf of the Contracting Authority. Lastly, the duty of redress during the procurement process reverts to the administrative courts.

This organisational scheme invites the following remarks.

(i) Concentrating the duties of regulation and control in the hands of the ARMP General Manager seems to be a weakness in the institutional arrangement of public procurement. Indeed, it seems inappropriate for ARPM to audit contracts supervised by itself.

(ii) Activities that are not always compatible are highly concentrated under the responsibility of the Public Procurement Officer (e.g. chair of tenders board, designation of members of the Public Procurement Management Unit, designation of members of the review committee, validation of bidding documents, validation of the review report, etc.). This often places the PPO in a situation of judge and party.

(iii) The management of appeals during competitive bidding by administrative courts seems not to respond to the requirement of speed in the bidding process. Therefore, the redress mechanism is not operational.

It would be necessary to revisit the institutional framework in place in order to streamline and strengthen control mechanisms.

2.3. Procurement activities and management capacity – The socio-political crisis experienced by the country negatively affected the performance of the institutional framework of public procurement. Since implementation of mechanisms for supervising the procurement process lapsed, this also affected efforts to strengthen the capacity of contracting authorities. In view of the disconnect between the practice on the ground and the legal and institutional framework, a retrospective consideration of procurement activities needs to be undertaken to revitalize control mechanisms in place and establish a capacity-building programme meant for contracting authorities.

2.4. Integrity and transparency of the system – The quality of a procurement system's integrity rests primarily on the balance of the functions of regulation and control. In the case of Madagascar, there is little visibility in the regulation of public procurements where primordial duties like audit and redress are not operational. It is important to establish the independent nature of the function of regulation, ensuring that sufficient financial autonomy allows for independently carrying out the duties of audit, capacity-building, design of procurement policies and management of appeals.

Annex X Cont'd: Table of Detailed Country Risk Analysis for the I-CSP Period

Pillars	Indicators	Risk Factors	Initial Risk	Mitigation Measures	Residual Risk
1.Programming/ Planning and budgeting	▪ Credibility PI 1-4 ▪ Integrality PI 5-7 ▪ Transparency PI 8-10 ▪ Policy-based budgeting PI 11-12 ▪ Effectiveness (Predictability and control of implementation) PI13-21	▪ Frequent recourse to emergency procedures and waivers ▪ Poor level of revenue execution ▪ Poor level of prior control ▪ Unrealistic budget ▪ Absence of budget implementation manual ▪ Systematic non-alignment of budget estimates with sector strategies ▪ Non-mastery of the expenditure of municipalities / semi-public enterprises	**H**	**Ongoing or envisaged measures** ▪ Submission of the 2014 Supplementary Financial Estimates to the National Assembly in July 2014 and adoption ▪ Formulation of a medium-term strategy for the modernisation of the PFM system (COS/PREA) with support from technical and financial partners. ▪ Operationalization of tax centres for 2015 and design and adoption of a priority action plan to boost tax revenue (DGI) ▪ Strengthening of prior control and service rendered (DGCF)	**S**
2. Treasury and cash flow management	PI-16-18	▪ Risk of uncertainty about the availability of financial resources allocated to projects/programmes and their use for the intended purpose, and based on the Treasury's capacity to handle complex financial transactions.	**S**	▪ Establishment of Central Bank internal audit/control functions ▪ Systematising of the supervision and financial regulation of the banking system by BCM ▪ Compliance of the Central Bank's accounting framework with IFRS standards ▪ Systematisation of the SGIFP link between DGD and DGI	**S**
3. Accounts and financial reports	PI 22-25	▪ Absence of a system for collecting information from primary service provision units ▪ Existence of several unintegrated management system ▪ Long timeframes for producing reliable financial and accounting reports; submission and publication of the draft appropriations bill / appropriations act to the Court of Auditors / National Assembly and related reports ▪ Accounting standard applied not compliant with international standards	**H**	▪ Design and implementation of an action plan for finalising the Finance Act FY 2008 to 2013 (MFB / CdC) ▪ Long-term installation of an integrated system for the management of financial information, including in the regions	**S**
4. Internal control/audit	Budget effectiveness (Predictability and control of implementation) PI 13-21	▪ Insufficient scope of internal audit and approach not based on risks ▪ External financing eludes the control organs in place ▪ Absence of a system of collecting information from primary service providing units ▪ Lack of budget monitoring and control capacity on	**H**	▪ Creation of a platform of coordination/consultation among the principal control organs to further clarify the intervention of each, redefine some missions and make the different missions complementary ▪ Effective establishment of the Budget and Financial Disciplinary Board (CDBF) ▪ Operationalization of the General Inspectorate of	**S**

Pillars	Indicators	Risk Factors	Initial Risk	Mitigation Measures	Residual Risk
		the part of municipalities		Finance (IGF) by MFB ▪ Strengthening of the institutional and technical capacity of key oversight bodies including IGE, DGCF, DGAI, Treasury Inspectorate ▪ Involvement of DGAI in the internal audit arrangement for projects financed by TFPs	
5. External audit / verification / Corruption	Consideration PI 26-28 Scope of corruption Prevention and control measures	▪ Audit reports of public entities not produced on time. ▪ Inadequate scope of external audit and approach not based on risks ▪ Limited scope of consideration by Parliament ▪ Audits of external financing eludes the audit bodies in place ▪ Absence of a system for monitoring inspection and audit recommendations Corruption perception index ▪ Absence of national strategy to fight fraud and corruption or one on good governance ▪ Absence of transparency in project implementation ▪ Unfamiliarity with the Bank's Anti-Corruption Strategy (IACD)	**H**	▪ Operationalization of the High Court of Justice ▪ Revision of the legal framework on corruption to align it to international standards governing the fight against money laundering and terrorism financing ▪ Strengthening of the institutional and technical capacities of CdC, BIANCO, CSI... ▪ Sensitisation and recourse to existing Bank mechanisms (audit reviews, sanction mechanisms…) ▪ Communication of audit reports to the public pursuant to the Bank's policy on disclosure of information ▪ Governance in fragile States: and introduction of a national policy on good governance (CSI) ▪ Membership in the Eastern and South African Anti Money Laundering Group (ESAAMLG) ▪ Rapid consideration by the National Assembly of the law on the financing of terrorism.	**S**
Overall residual fiduciary risk assessment					**Substantial**

Risk rating: H: High ; S: Substantial ; M: Moderate ; L: Low