Report Number : ICRR0020398

1. Project Data

Operation ID P150503	**Operation Name** MG-Reengagement DPO	
Country Madagascar	**Practice Area(Lead)** Macro Economics & Fiscal Management	
L/C/TF Number(s) IDA-55820	**Closing Date (Original)** 30-Dec-2015	**Total Financing (USD)** 45,000,000.00
Bank Approval Date 18-Dec-2014	**Closing Date (Actual)** 30-Dec-2015	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	45,000,000.00	0.00
Revised Commitment	45,000,000.00	0.00
Actual	44,175,590.00	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Policy Areas

a. Objectives

The development objective (PDO) of this Madagascar Reengagement Development Policy Operation (DPO), as defined in the Program Document (PD, p. iii), was “improving the efficiency and transparency of public service delivery.”

In light of the broad objective of this operation and taking into account the Policy and Results Matrix (Annex I, p.29), this Review assesses efficacy on the basis of its contribution towards two specific policy objectives: (i) improve efficiency in public service delivery and in pro-poor social spending, and (ii) improve transparency in public service delivery.

b. Were the program objectives/key associated outcome targets revised during implementation of the series?

No

c. Pillars/Policy Areas

The program supported three policy areas:

1 . **Strengthening transparency of the public sector:**Measures under this policy area focused on the enforcement of the legal requirement for government officials to file asset declarations and taking steps to improve management of seized stocks of precious wood in line with the government international commitments.
2 . **Increasing pro-poor social spending:**The program supported redirection of budget expenditures towards delivery of social services for the poor, in particular in primary health and education. The authorities made a commitment almost to double the amount of public spending aimed at fighting poverty by adopting a Supplementary Budget Law for 2014.
3 . **Improving fiscal management:**Measures under this policy area were to contribute to improvements in the national legal and regulatory framework for public debt management as well as to strengthening the efficiency and transparency of the state-controlled power utility JIRAMA. In addition, the program supported steps to initiate the process of public sector's arrears clearance.

d. Comments on Program Cost, Financing, and Dates

The operation was appraised in November 2014, approved by the Board on December 18, 2014, and became effective on December 30, 2014. Financing provided by the IDA Credit amounted to US$45 million equivalent. The program funds were disbursed in full upon effectiveness. The actual disbursements amounted to US$44.2 million. The discrepancy was due to exchange rate movements (the Credit was denominated in Special Drawing Rights). The DPO preparation and implementation was coordinated with other members of the multi-donor budget support group, but there was no formal co-financing from development partners. There was no government contribution. The operation closed on schedule on December 30, 2015.

3. Relevance of Objectives & Design

a. Relevance of Objectives

The objectives of the Reengagement DPO were fully consistent with the key priorities and expected outcomes of the World Bank Group Interim Strategy (IS) for Madagascar for FY12-FY13, which as of October 2016 remains the latest strategic document for the country approved by the WBG Board of Executive Directors. The IS emphasized the following medium term priorities for the Bank engagement: (i) Governance and public sector capacity, (ii) Resilience and vulnerability, and (iii) Employment and competitiveness. The policies supported by the DPO were aligned with the first two of these priorities. Furthermore, a Systematic Country Diagnostic (SCD) for Madagascar, presented to the Board in August 2015, emphasized the need to improve efficiency of public service delivery and accountability in budget management among the country's top priorities.

DPO objectives were also relevant to country conditions and government strategies. On country conditions, objectives addressed gaps in public sector service delivery, as reflected in the deterioration of health and education outcomes as well as of governance indicators. DPO objectives were aligned with the objectives of the Government's own development strategy, outlined in the National Development Plan (NDP) for 2015-19, which was endorsed by the Cabinet in late 2014. The NDP identified governance reforms as the first item on the list of its five strategic pillars. However, the DPO objective's formulation was excessively broad and imprecise, as its broad focus on efficiency and transparency of public services at large was not accurately matched to the specific reforms that the DPO supported.

Rating

Substantial

b. Relevance of Design

The operation's design managed to balance the objectives of focusing on the limited number of reforms, which were seen to be politically feasible to implement in the fragile post-conflict environment, and building a momentum for future changes, while signaling to the donor community about meaningful reengagement with the Bank. The choice of instrument, which was a stand-alone DPO, was appropriate, given a high degree of political uncertainty and the years of disruptions in normal cooperation between the Bank and Madagascar. The risks identified at appraisal were appropriate, and the proposed mitigation measures were practical under the country's circumstances related to the fragile political situation.

The DPO's results chain, however, shows noteworthy weakness, primarily because of disconnect between specific reforms supported under the operation and very broad transparency and efficiency objectives articulated in the PDO. While most prior actions provided for a sufficient degree of institutional and regulatory change in the areas closely linked to the operation's PDO, they, at best, could be expected to achieve intermediate results. For instance, adoption of the supplementary budget protecting pro-poor social expenditures was not sufficient to improve the efficiency of public expenditure. Similarly, adoption of the Public Debt Law and signing the agreements on arrears refinancing are important steps, but insufficient to improve the efficiency of debt management, which also requires a sustainable debt strategy and its satisfactory implementation. At the same time, several prior actions (e.g. the establishment of the inter-ministerial committee to manage the seized stock of rosewood) represented initial steps towards the efficiency and transparency objectives. It was expected that future operations would support further actions in these areas. Other prior actions were intended to bring an initial reform momentum that could be supported by subsequent reforms by empowering specific public institutions, such as the Anti-Corruption Bureau, BIANCO.

Macroeconomic framework. By the time the Reengagement DPO was approved, the country's macroeconomic framework was considered to be on a sustainable adjustment path, despite elevated risks related to the low level of international reserves and quasi-fiscal deficits deriving from the poor performance of large state-owned companies. In addition, the remaining political risks could slow down the process of economic recovery. Overall, the authorities' monetary, foreign exchange, and debt policies were viewed as prudent, and the macroeconomic framework has remained adequate since the DPO approval. In June 2014, the IMF disbursed its first Rapid Credit Facility (RCF) to Madagascar, indicating its satisfaction with the country's pace of macroeconomic adjustment. Macroeconomic performance was broadly satisfactory under the subsequent IMF program in 2015-2016, Staff-Monitored Program (SMP), which helped to build the Government's track record of reform implementation. This paved the way to the approval in July 2016 of the ongoing, longer term and much larger support program by the IMF, Extended Credit Facility (ECF).

Rating
Substantial

4. Achievement of Objectives (Efficacy)

Objective 1

Objective
Improve efficiency in public service delivery

Rationale
The Government made a longer term policy commitment to improve efficiency in public spending and expand budget expenditure on priority social sectors in its National Development Plan. In 2015 the Cabinet approved the National Social Protection Policy to guide future budget allocations in this area. Actual expansion in pro-poor social spending has been considered as substantial. However, efficiency of social service delivery improved less than expected, as spending increases were not commensurate with physical vaccination and enrollment improvements.

In addition, to support efficiency improvements in public service delivery, in 2015-16 the Government has undertaken a number of reforms to advance the broad modernization of fiscal management systems in the spirit consistent with its commitments made under the Reengagement DPO. Some of these efforts were undertaken within the framework of the subsequent World Bank budget support operation, the Resilience DPO (P153084), as well as part of the programs, supported by the IMF. Specifically, the government has issued an implementing decree for the law on public debt concerning opening dedicated accounts at the Central Bank. In addition, the new debt database system enhanced debt management capacity. It also introduced the automatic fuel pricing mechanism to reduce fuel subsidies and make budget costs more predictable. Moreover, measures to improve tax administration resulted in gradual growth in collected tax revenue – from 9.3 percent of GDP in 2013 to 10.1 percent of GDP in 2015 (IMF data). All this policy

progress notwithstanding, actual changes in fiscal management practices were relatively slow, reflecting weak implementation capacity.
The particular reforms supported under the program sought to improve efficiency in the delivery of social, utility, and debt management services. Achievements were as follows:

Social Services. Indications are that efficiency in the delivery of these services did not improve, for growth in provided services were not commensurate with additional budget spending. This is suggested by the underachievement of targets with respect to vaccination and primary education. With regard to vaccination services, the number of infants (0-11 months) that were vaccinated during the year increased by 2.7 percent, from 671,880 in 2013 to 690,033 in 2014 (as reported in the ICR) and then to 757,993 in 2016 (based on additional information provided by the team). This increase fell short by about 14 percent of the program target of 884,385 to be achieved by 2016. On primary school enrollment, the number of students that enrolled in public primary schools was expected to reach 4.0 million in 2016 from the baseline of 3.741 million in 2013. At the same time, the share of girls in the overall enrollment was planned to increase from 49.6 percent to 49.8 percent. The actual outcome at the end of 2014-15 school year has shown a lower growth rate compared to the target: the total enrollment was 3.879 million, out of which girls made 49.7 percent. These shortfalls occurred despite indications of larger than planned budgets. The target was to increase the amount of annual budget appropriations to priority social spending (covering expenditure on health, education, population, and water sectors) from Ariary 71.7 billion in the 2014 initial government budget to the levels exceeding Ariary 139.4 billion. The ICR considers this target to be significantly surpassed: the initial 2015 budget appropriated Ariary 312 billion on priority social spending, but the ICR did not provide for actual level of budget execution. According to additional information provided by the team, actual budget spending in these sectors in 2015 was above Ariary 190 billion, exceeding the target. At same time, the ICR noted (p.10) that the uneven pace of progress in this policy area -- the spending target was exceeded, while the respective targets for service delivery were not reached – suggests limited efficiency improvement in budget execution related to the capacity constraints in social ministries.

Utility management services. The target was to improve collection of electricity charges by JIRAMA, state-owned power utility, from 68 percent to 75 percent, measured by the ratio of “fees collected” to “estimated value of electricity generated”. This was supposed to happen through reduced theft of fuel and other improvements in JIRAMA’s management. Actual improvements (collection ratio, as estimated based on the sample data, reached about 70 percent in 2015) were below the target, suggesting only marginal improvements in the efficiency of utility management. But not fully comparable data were available. Since then, according to additional information provided by the team, JIRAMA’s management has started to implement a new revenue protection program, under which about 8,500 smart meters would be installed to improve monitoring of electricity consumption by largest consumers.

Debt management services. There were two targets in this area. The first was to stop the practice of initiating new external borrowing without direct Ministry of Finance and Budget involvement in the negotiation process from the very beginning. This target was achieved. According to the ICR (p. 10), the government procedures for undertaking new loans were modified to ensure the full involvement of the Ministry of Finance and Budget in all stages of the external borrowing process. During 2015, the Government remained in full compliance with these new procedures and effectiveness of the MFB’s oversight of the entire debt management process has strengthened. More discipline in public debt accumulation indicates a potential efficiency gain in debt management, but more evidence is needed to confirm this conclusion.

The second debt target was to reduce the stock of government arrears outstanding to the three petroleum companies and Ambatovy, the major mining investor, by Ariary 300 billion (from 559 to 259 billion). These were arrears associated largely with unpaid fuel subsidies and VAT refunds. Technically speaking, this target was achieved as the respective arrears were cleared in the amount of Ariary 316 billion. However, two caveats are worth adding to put this achievement in the perspective. First, because of depreciation of local currency, the value of the stock of original arrears (baseline) was moved up by 43% to 803 billion, which means that at April 2016 there was still a stock of outstanding 'old' arrears valued at almost Ariary 500 billion (in excess of 1.5% GDP) to these four companies. Second, this reduction in 'old' arrears were accompanied by accumulation of some new government arrears in the course of 2015. As the result, the net reduction in government arrears in 2015, according to the IMF, amounted to only Ariary 149 billion, i.e. about half of the target, suggesting only modest improvements in efficiency of debt management. According to the additional information provided by the team, in December 2015 the government published a medium-term debt strategy, which included a plan for arrears repayment that was incorporated in the 2016 budget law.

Rating
Modest

Objective 2

Objective
Improve transparency in public service delivery

Rationale

Since the Reengagement DPO was approved, the Government has adopted a number of policies to strengthen transparency in the public sector, several of them in the framework of recent IMF programs. Those include the adoption of anti-corruption strategy in 2015. Two new draft laws on declaration of assets and the formation of judicial anti-corruption centers were submitted to Parliament in June of 2016. The Government also took steps to strengthen audit and control mechanisms for public revenue collection and approved administration of VAT refunds - a major source of arrears in the past – by establishing an escrow account at the Central Bank. Starting in May 2015, the MFB has published monthly in-year budget execution results.

The specific reforms supported under the program sought to improve the financial transparency of cabinet ministers and the transparency in the management of seized precious wood logs. Achievements were as follows:

<u>Cabinet Minister Disclosures</u>. Filing of asset declarations by ministers was a step towards improved transparency, but further steps need to be taken to review the filings. The target was to ensure that all

government ministers file an asset declaration with the Independent Anti-Corruption Bureau (BIANCO) compared to the baseline of 20.5 percent in 2013. This target was fully achieved by the end-2015. However, in order to make the declaration process effective, the BIANCO needs an expansion in its powers to review submitted declarations, as well as considerable capacity strengthening.

Securing and disposing of the seized stockpile of precious wood logs. Little progress was achieved, for there is no viable use-plan for the seized precious wood. The target was to achieve satisfactory progress in the execution of the Government's Use Plan for seized precious wood, measured by the periodical reports by the special Inter-Ministerial Committee, established as part of the DPO-supported program. It was also expected that the Use Plan would be agreed with the respective international agency, Convention for International Trade of Endangered Species (CITES), to ensure international oversight in line with Madagascar's existing commitments. While the Government reports (ICR, p.9) that it had strengthened control of the seized stockpile of precious wood and 97 percent of the total stockpile was secure by representatives of the Inter-Ministerial Committee, it yet has to finalize the viable Use Plan.

Rating
Substantial

5. Outcome

The outcome rating of the operation is Moderately Satisfactory reflecting substantial rating for relevance of its objectives and also its design, and moderate shortcomings in the operation's achievement of its objectives. The operation served as a critical tool for the Bank to reengage with Madagascar on its policy reform program, provided timely financial support to the Government, and helped mobilize additional donor support to the country. Moreover, the operation was instrumental in triggering the early steps towards longer term and broader public financial management reforms. At the same time, these early steps did not bring yet adequate changes in day-to-day government practices in the areas of social services, debt management and utility management. Implementation capacity remains a major constraint. Political resistance to some of the proposed changes has been strong.

a. **Outcome Rating**
Moderately Satisfactory

6. Rationale for Risk to Development Outcome Rating

The risk to the development outcome of this operation is rated Substantial. Despite recent progress in the area of macroeconomic management, Madagascar's political and fiscal risks remain elevated as emphasized by the latest (July 2016) ECF review by the IMF. Madagascar continues to be a fragile country with weak institutional and technical capacity and legacy of political instability, while being vulnerable to exogenous shocks, including natural disasters. In the case of these major risks materialize, the country's economic recovery prospects would deteriorate, which could erode the recent modest gains in efficiency and transparency of public service delivery. At the same time, the continuity and intensity of policy dialogue under the ongoing budget/macro support programs with both the Bank and IMF represents an important risk mitigation factor. According to the latest (November 2015) Bank-Fund update of the debt sustainability analysis (DSA), Madagascar continues to be at a moderate risk of debt distress.

a. Risk to Development Outcome Rating

Substantial

7. Assessment of Bank Performance

a. Quality-at-Entry

The operation's objectives were broadly relevant to the country's conditions. The DPO aimed at improvements in both policy and institutional arrangements to initiate critical reforms in public service delivery, with strong attention to poverty conditions. Design was compromised by the disconnect between the specific reforms supported under the DPO and the broad efficiency and transparency objectives of the operation, as reflected, for example in the lack of meaningful progress and follow-up policy actions regarding managing the stockpile of precious wood. Analytical underpinnings of the operation were based largely on 18 sectorial policy notes, prepared by the Bank in 2014 to fill the knowledge gaps accumulated during the years of low-intensity engagement, prioritize a potential reform program, and form the basis of the Systemic Country Diagnostic (2015). Those were complemented by several larger pieces of analytical work, including Debt Management Performance Assessment and Public Expenditure and Financial Accountability (PEFA) Assessment. The preparation also capitalized on some important recent technical work done by the Bank in Madagascar, such as under the Energy Sector Improvement Project (P151785) and Disposal of Rosewood Stock technical assistance (P144062).

However, uneven government ownership (see 8a) suggests that insufficient political economy analysis was done at the preparation stage. There were moderate shortcomings in the M&E design, as described in section 9. Specifically, there was inconsistency between the closing date of the operation and the dates, when most program targets were expected to be achieved. This undermined effectiveness of program evaluation, as by the time of ICR preparation, the relevant data were only partially available. The operation was prepared in consultation with other members of the multi-donor budget support group, including EU, France, and African Development Bank. On precious woods, the Bank had extensive consultation with both the civil society and the international community, including CITIES. Several DPO priorities (such as increase in social spending and strengthening governance of JIRAMA) were also supported by the respective programs of the IMF and other donors, which helped to increase the DPO's leverage (But there is no evidence of the overlap in prior actions).

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

Two Implementation and Status Reports (ISRs) were prepared in the course of supervision (June and December, 2015). Both reports presented the latest available data for all eight result indicators. In a couple of instances, the information presented in the ISRs is inconsistent with the conclusions reported later in the ICR. These inconsistencies remain unexplained. Overall, the analyses in ISRs show insufficient depth and candor. For instance, the ISR2 concludes that "all indicators are moving in the right direction except for the arrears", without reporting on e.g. lack of material progress towards the specific target in the area of precious wood management. In addition, the ICR states (p.12) that the team's communication with the Government at the supervision stage could be more effective, which might have strengthened the government ownership.

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

8. Assessment of Borrower Performance

a. Government Performance

The Government's commitment to the reform program was uneven, which affected the program outcomes. Overall, as the ICR states (pp. 7,12), the Government failed to act in a systematic way on reform implementation and monitoring, and it did not make adequate contribution to collection of necessary M&E data. This in part was driven by frequent changes in the composition of the Government, including the Prime Minister. On the positive side, the Government was successful in sustaining its program of macroeconomic adjustment and keeping the macro framework adequate. The Government's fiduciary performance was satisfactory, as suggested by the audit of the dedicated account in the Treasury at the Central Bank, undertaken in compliance with the DPO financing agreement. In a separate communication to IEG, the Bank team suggested that government's ownership of the reform process has strengthened considerably since the closure of the Reengagement DPO and the quality of policy dialogue under the subsequent budget support programs has improved.

Government Performance Rating

Moderately Satisfactory

b. Implementing Agency Performance

The Ministry of Finance and Budget (MFB) was the implementing agency for the program. As suggested by the ICR (pp. 5, 12), the MFB clearly understands its coordinating role, but at the moment has insufficient capacity for actual coordination of reform implementation. This could be explained by the unsupportive political environment of the fragile state with the strongly established tradition of political hierarchy, and lack of practical experience of cooperating with the Bank (this was the first DPO in Madagascar after five years of political turmoil).

Implementing Agency Performance Rating

Moderately Satisfactory

Overall Borrower Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The core of the results framework was represented by eight specific indicators reflecting various particular aspects of the operation's results. Most indicators had logical links with the prior actions and the efficiency and transparency dimensions of PDO. However, in the area of social service delivery the selected indicators largely reflected the scale of service delivery, but not the efficiency of the process. Some of the selected indicators were also included in the Government's own Development Plan, which in principle would make M&E implementation easier. The baseline data were provided in the Operation Results Framework matrix (PD, p. 29). In most cases, responsibilities for collecting the monitoring data were clearly defined in the Program Document. However, the M&E design did not identify a central Government's Unit to be in charge of coordinating the entire data collection process, which has affected the M&E implementation.

Moreover, the M&E design had several additional moderate shortcomings. First, several results indicators would have benefitted from a more specific and accurate description in the project documentation. For instance, the indicator on external borrowing ("without implication of MFB") was spelled out quite unclearly. Second, the monitoring of public spending on priority social services was based on the changes in the levels of budget appropriations, which in the conditions of weak institutional environment could significantly deviate from actual budget execution. No indicator was proposed to track actual spending levels. Third, there was some internal time inconsistency in the M&E design: the program closing date (end-2015) was earlier than the agreed dates (1st half of 2016) for most program targets. This undermined effectiveness of program evaluation, as by the time of ICR preparation some of necessary M&E data remained unavailable. Fourth, the original target on immunization (an increase in 31% in the number of vaccinated infants in just two years) was probably unrealistic, given the country's capacity limitations.

b. M&E Implementation

M&E implementation was based largely on data provided by Government agencies. The MFB played the central role in monitoring and reporting. However, as mentioned above, the Ministry was lacking organizational capabilities to generate adequate monitoring data on time. The team made two attempts to collect the full set of M&E data when preparing the ISRs in 2015. These reports provided for full coverage of all eight monitoring indicators, but this information is partially dated. Despite the program targets were established for 2016, the ICRR had to rely on the data for the end-2015 or earlier periods, which were the latest available.

c. M&E Utilization

The ICRR does not provide any information on M&E utilization.

M&E Quality Rating

Modest

10. Other Issues

a. Environmental and Social Effects

No safeguard policies were triggered by this DPO.

b. Fiduciary Compliance

The ICRR did not present any discussion of fiduciary issues. The ISR prepared in June 2015 reports the results of audit of the dedicated account in the Treasury at the Central Bank of Madagascar, as agreed in the financing agreement for this DPO in light of the identified fiduciary risks. The auditors have issued a clean report, which was accepted by the Bank financial specialist.

c. Unintended impacts (Positive or Negative)

No

d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for

			Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	---
Risk to Development Outcome	Substantial	Substantial	---
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	---
Quality of ICR		Modest	---

Note
When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

12. Lessons

The following lessons are taken from the ICR with some adaptation of language:
• Strong coordination of budget support operation with Bank investment projects may be beneficial for policy reforms supported under a DPO. Despite various changes in the government at the political level, the Bank's ongoing investment projects in Madagascar helped to keep continuity of the policy dialogue largely intact because of well-established line of communication at the technical level.
• In a low capacity environment program monitoring will benefit from additional technical assistance on M&E provided to the Government at both the preparation and implementation stages. The Madagascar DPO could have included TA on data gathering and reporting, as well as M&E administration (coordination of M&E effort across various government agencies).

The following lesson is additionally suggested by the IEG:
• Given that in a fragile policy environment institutional changes require more time for consolidation and having an impact, the evaluation of DPO outcomes will benefit from extended project cycles, including a later closing date and additional supervision missions. This would allow for collection of additional M&E data and for more accurate assessment of both actual program outcomes and their sustainability.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICRR shows several significant weaknesses in its presentation and analysis. First, the ICRR is mixing the discussion of the program efficacy with that of program outcome rating (pp. 10-11). It arrived at the proposed outcome rating without due justification related to the relevant ratings for efficacy and relevance. Second, in several cases the quality and level of details of presented evidence regarding the achieved results is insufficient. For instance, the ICRR does not explain the reasons for delays in the completion of the Government's Use Plan in the precious wood sector, neither has it reported on currently expected completion date. Third, the ICRR contains no information on actual policy reforms carried out after the Board approval of the DPO. It does not discuss the extent of the Government's follow-up on policy actions that had constituted prior actions for the operation. Fourth, proper discussion of the link between the DPO and Bank's strategy for Madagascar is missing. Fifth, the ICRR has no reporting on actual compliance with the fiduciary requirement in the Financial Agreement. There are also some inaccuracies in the ICRR's presentation, such as inconsistency between the Data Sheet and main ICRR text (p. 11) regarding the proposed Risk to the Outcome rating (in the former it is Substantial, while in the latter – High).

a. Quality of ICR Rating

Modest