



**The World Bank**

2022 Systematic Country Diagnostic Update for Madagascar (P173774)

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# Systematic Country Diagnostic Update for Madagascar, April 2022

## The Urgency of Reforms:

### Structural Transformation and Better Governance At the Heart of the Strategy to Reduce Poverty

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## Abbreviations and Acronyms

AfDB	African Development Bank	INSTAT	<i>Institut national de la statistique</i>
AGOA	African Growth and Opportunity Act	IT	Information Technology
ASA	Advisory Services and Analytics	JIRAMA	Jiro sy Rano Malagasy
BIANCO	<i>Bureau indépendant anti-corruption</i>	LCDP	Least Cost Development Plan
BNGRC	<i>Bureau national de gestion des risques et des catastrophes</i>	MFD	Maximizing Finance for Development
BPO	Business Process Outsourcing	MFI	Microfinance Institution
BPS	Business Pulse Survey	MICS	Multiple Indicators Cluster Survey
BTI	Bertelsmann Transformation Index	MTEF	Medium Term Expenditure Framework
Cat DDO	Catastrophe Deferred Drawdown Option	NBFI	Non-Bank Financial Institution
CDBF	<i>Conseil de discipline budgétaire et financier</i>	NGO	Non-Governmental Organization
CEM	Country Economic Memorandum	OPHI	Oxford Poverty and Human Development Initiative
CNaPS	<i>Caisse nationale de prévoyance sociale</i>	PAC	Anti-Corruption Poles ( <i>Pôles anti-corruption</i> )
COVID-19	Coronavirus Disease	PEFA	Public Expenditure and Financial Accountability
CPF	Country Partnership Framework	PPA	Power Purchase Agreement
CPIA	Country Policy and Institutional Assessment	PPD	Public Private Dialogue
CPSD	Country Private Sector Diagnostic	PPP	Public Private Partnership
CRDA	<i>Commission de réforme du droit des affaires</i>	PSNP	Productive Safety Net Program
CSA	Climate-Smart Agriculture	PPP	Purchasing Power Parity
CSBF	<i>Commission de supervision bancaire et financière</i>	SADC	Southern African Development Community
CSO	Civil Society Organization	SAMIFIN	Financial Intelligence Unit ( <i>Sampandraharaha Malagasy Iadiana amin'ny Famotsiambola</i> )
DALY	Disability-adjusted Life Years	SCD	Systematic Country Diagnostic
DEA	Madagascar Digital Economy Assessment	SNA	System of National Accounts
DFI	Development Finance Institution	SOE	State-Owned Enterprise
DFS	Digital Financial Services	UN	United Nations
DFS	Digital Financial Services	SME	Small and Medium-sized Enterprises
DHS	Demographic and Health Surveys	SSN	Social Safety Net
DPO	Development Policy Operation	SSNP	Social Safety Net Project
DRM	Disaster Risk Management	SSNDR	Social Safety Net Drought Response
ECI	Economic Complexity Index	SWIO RAFI	Southwest Indian Ocean Risk Assessment and Financing Initiative
EDBM	Economic Development Board of Madagascar	TFP	Total Factor Productivity
ESP	Education Sector Plan	TFA	Trade Facilitation Agreement
EU	European Union	TFTA	Tripartite Free Trade Agreement
FDI	Foreign Direct Investment	TIP	Trade Information Portal
FDTIC	Universal ICT Access Fund ( <i>Fonds pour le Développement des Technologies de l'Information et de la Communication</i> )	UNICEF	United Nations Children's Fund
GBV	Gender-Based Violence	WBG	World Bank Group
GDP	Gross Domestic Product	WDI	World Development Indicators
HCI	Human Capital Index	WDR	World Development Report
HDCT	Human Development Cash Transfer	WEF	World Economic Forum
HFS	High Frequency Survey	WGI	Worldwide Governance Indicators
ICT	Information and Communication Technologies	WJP	World Justice Project
IFC	International Finance Corporation	WPF	World Food Programme
IGE	<i>Inspection générale de l'État</i>	WTO	World Trade Organization
IGF	<i>Inspection générale des finances</i>		



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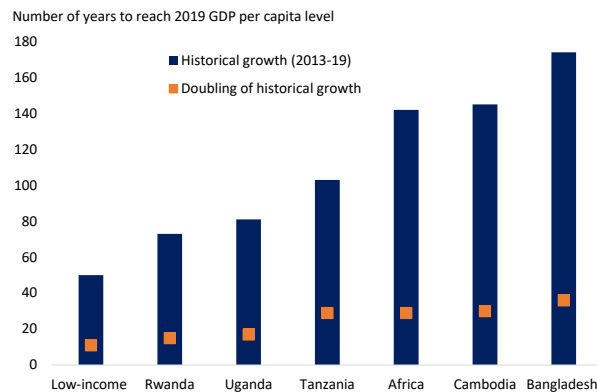
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## Executive Summary

1. **Urgent and far-reaching reforms are needed if Madagascar is to achieve sustained poverty reduction in the coming years.** This Systematic Country Diagnostic (SCD) Update presents the main factors that have caused living standards in Madagascar to fall back to all-time lows in 2020. It highlights that if pre-pandemic growth trends were to continue, it would take the country a decade to reverse the loss in income per capita that occurred during the 2020 crisis and more than 70 years to reach current living standards in Rwanda or Uganda (Figure ES1). This illustrates that the country will need to sustain significantly higher and more inclusive growth to reduce poverty in coming years.<sup>1</sup> This in turn can only happen if the government is fully committed to an ambitious and coherent development strategy and implements it with a new sense of urgency. The SCD Update identifies the priority interventions that could set in motion this process.

**Figure ES1: Years needed to reach pre-crisis living standards of peers<sup>2</sup>**



2. **The SCD Update sheds new light on key constraints to broad-based development.** An important takeaway from the analysis presented in this Update is that Madagascar has continued in recent years to repeat patterns that have hampered its long-term development, namely its inability to scale up economic opportunities during periods of relative stability and its exposure to frequent, deep, and persistent crises. This has resulted in the poverty rate reaching an estimated 81 percent in 2020, which would be a record high. The diagnostic suggests that low investment in physical and human capital, a lack of structural transformation, and vulnerability to shocks are the most salient constraints to development at present. These are amplified by pervasive, and, for the most part, intensifying governance challenges, which prevented significant reform progress on many fronts.

<sup>1</sup> The SCD Update focuses on the incidence of monetary and non-monetary poverty rather than on “shared prosperity” (as characterized by the income share of the bottom 40 percent), since an estimated 81 percent of the population lives in extreme poverty (as defined by the international poverty line of US\$1.90 per day at 2011 PPP).

<sup>2</sup> Low-income countries are those with GNI per capita in 2020 lower than US\$1045. The category includes 27 countries: Afghanistan; Burkina Faso; Burundi; Central African Republic; Chad; Congo, Dem. Rep.; Eritrea; Ethiopia; Gambia; The Guinea; Guinea-Bissau; Korea, Dem. People's Rep.; Liberia; Madagascar; Malawi; Mali; Mozambique; Niger; Rwanda; Sierra Leone; Somalia; South Sudan; Sudan; Syrian Arab Republic; Togo; Uganda; Yemen, Rep.



3. **Successfully reducing poverty in coming years will require a multi-pronged approach.** Priority interventions presented in this SCD Update were identified through an evaluation of their potential impact on poverty, their degree of urgency and complementarity with other policies. In this context, forceful actions to prevent long-term damages from the ongoing economic, health, and climate crises and an unwavering commitment to macroeconomic stability were considered preconditions for a sustained recovery. Beyond these essential prerequisites, priority interventions were regrouped around three objectives: (i) mobilize productive investments to accelerate economic and spatial transformation; (ii) enhance the human capital and resilience of the poor to improve their livelihoods; and (iii) strengthen citizen engagement to deliver better policy outcomes and limit state capture.<sup>3</sup> While interventions are well identified, sustained progress will only be possible if there is strong political ownership of the necessary reforms and an increased focus on the welfare of the poorest.

#### *Trends in Growth, Poverty and Sustainability*

4. **Following a succession of weak growth episodes and deep crises, real income per capita fell back to historical lows in 2020 and is currently about 45 percent below its 1960 level.** Madagascar is one of only six countries in the world where real per capita incomes declined over such a long period, and the only country within that group that did not face prolonged civil wars or armed conflicts. This long-term decline in living standards and the stop-and-go nature of growth episodes are the main reasons that an estimated 81 percent of the population currently lives under the international poverty line of US\$1.90 per day (in 2011 PPP), up from 77.6 percent in 2012 and 68 percent in 2001.

5. **The return to constitutional order in 2013 ignited a modest recovery, characterized by low investment rates and the absence of significant structural transformation.** The upturn, which extended over the period 2013-19, was helped by renewed political stability, the reopening of export markets, and the reengagement of donors. However, real GDP growth only averaged 3.5 percent over that period, which barely surpassed the pace of population growth, and was mostly accounted for by four sectors: mining, construction, telecommunication, and financial services. Sectors where Madagascar is considered to have strong comparative advantages such as textile, agribusiness and tourism contributed marginally to the recovery and have seen few large-scale investments. Agriculture, which is by far the largest source of occupation for the labor force, saw stagnant output and declining productivity, reflecting repeated climate shocks, deteriorating infrastructure, and the slow adoption of higher-yielding techniques. On the whole, the lack of investment in sectors that have the potential to generate more productive, better paying and formal jobs was a key impediment to growth over the decade leading up to the pandemic, with capital deepening contributing between 2 and 4 times less than among aspirational peers like Uganda, Tanzania, Rwanda, Bangladesh, or Cambodia.

6. **Improvements in non-monetary poverty indicators during the recovery phase were concentrated in the wealthier Northern regions while conditions stagnated in the South and deteriorated in urban areas.** Improvements in access to electricity, sanitation, housing and cooking fuel helped reduce overall deprivation rates from 2008 to 2018 but these were largely concentrated in wealthier Northern regions, where public and private investments contributed to improved outcomes. Southern regions that had been lagging behind in the past have made limited or no progress, including in child mortality, nutrition, access to water and school attendance, and continue to have the highest levels

<sup>3</sup> According to Fiebelkorn (2019), “state capture” refers to the capacity of certain private actors to shape policies and/or their implementation to favor their interests or private benefits. Elite capture describes a similar phenomenon: resources are captured by few interconnected actors at the expense of the less economically and/or politically influential groups.



of deprivation in the country. Worryingly, non-monetary poverty increased in the largest cities as a rapidly growing urban population has put severe strains on infrastructure and public services, as visible in deteriorating access to water, electricity, and housing.

7. **The pandemic-induced recession has reversed previous gains in monetary and non-monetary poverty.** Despite a comparatively modest number of COVID cases in Madagascar, the shock associated with the pandemic triggered a recession that was about three times deeper than in the rest of Sub-Saharan Africa, with a collapse in export revenues and private investment resulting in a contraction of GDP by 7.1 percent and of income per capita by 9.8 percent. As a result, an additional 1.8 million people are estimated to have fallen below the international poverty line in 2020, bringing the poverty rate to an all-time high of 81 percent. Rising poverty reflects job losses in most exposed sectors such as transport, tourism, and trade, delayed salary payments (part of which is remitted to poor relatives in rural areas) and declining revenues in informal sectors. Compounding this shock, historic droughts in the South had pushed 1.3 million people in a situation of acute food insecurity by the end of 2021, and a series of cyclones have impacted key infrastructure and the livelihood of exposed populations in central and northern regions in early 2022. These concurrent crises have resulted in reduced access to basic services, which is expected to worsen deprivation rates, particularly in Southern regions and in urban areas, as these were most affected.

8. **Fiscal and environmental sustainability risks have increased.** Pre-pandemic efforts to limit fiscal deficits and public debt, to strengthen the central bank's operational framework, and to ensure that commercial banks were well capitalized helped maintain macroeconomic stability and facilitated the use of expansionary policies in response to the crisis. Nevertheless, risks to fiscal and debt sustainability have risen and will require close monitoring as the government seeks to rely more on non-concessional financing, PPPs and off-budget instruments like the newly created sovereign wealth fund. Experience from other low-income countries suggests an increase in debt distress risks from low to moderate is often followed by a further deterioration of debt distress risks. Environmental sustainability challenges have also increased. High population growth and limited economic opportunities outside of subsistence agriculture continue to raise demand for agricultural land and lead to an overexploitation of natural resources, which was amplified by the pandemic as funding available to manage protected areas dropped and poaching and deforestation intensified.

### *Constraints to Broad-Based Development*

9. **In reviewing progress towards the policy objectives of the FY16 SCD and the evolution of development outcomes since its completion, the Update finds that the constraints to broad-based development remain largely the same.** These (interlinked) constraints are analyzed in the Update in a framework organized around four categories: (i) weak governance and state capture; (ii) low investment in physical, human and natural capital, (iii) low and declining productivity coupled with stalled structural transformation; and (iv) high and rising vulnerability to shocks. Each of these constraints continued to limit the prospects for broad-based development with the ongoing COVID-induced crisis and famine in the South having only increased their relevance.

10. **This Update finds that weak governance is an overarching constraint and has resulted in limited reform progress on many fronts.** One factor underlying these governance weaknesses is state capture and the exclusion of key groups from policymaking. Madagascar's political system and economy are dominated by a small group of elites who benefit from policies that guarantees them privileged access to resources. The structure of the state, including the high degree of centralization, the absence of strong accountability mechanisms, the permeability to vested interests, and limited institutional capacity, all



contribute to amplifying impacts on development outcomes. Even in areas where reforms were undertaken, legislative and regulatory changes were often poorly implemented, and in some cases subsequently reversed. Finally, the participation and influence of citizens in the policy process is limited. Many of these challenges have been amplified by the pandemic, as visible in the increased centralization of power within the executive branch and the difficulty in tracking emergency resources deployed during the crisis.

**11. Development prospects are also constrained by low levels of investment in physical and human capital and the rapid depletion of natural resources.** Low investment in productive capabilities, deteriorating education outcomes, high levels of stunting, high maternal mortality, and rapid depletion of natural resources are all major impediments to development, which intensified during the crisis. Growth has been stifled over the last decade by low investment rates in the private sector, which reflect an unfavorable business climate, deteriorating infrastructure quality, poor public sector governance, and constrained access to finance, land, skills, and markets. Public investment gradually increased since 2012 but remains too low and ineffective to ensure broad based improvements in infrastructure and public services. The quality of human capital also stagnated at low levels, with a worrisome decline in learning outcomes due to a lack of qualified teachers and high drop-out rates among poor children. While stunting and child mortality rates were gradually declining before the crisis, the trend likely reversed since then as child health, nutrition, and education outcomes deteriorated. Renewable natural resources such as cropland and forests are also threatened by degradation and overexploitation.

**12. A third set of constraints relates to low and generally declining productivity amid stalled structural transformation.** Low productivity arises from a variety of factors but deteriorating supply-side conditions in the agricultural sector, the unrealized potential for manufacturing and services growth and barriers to growth-inducing urbanization play a prominent role. Indeed, the bulk of the population remains engaged in subsistence agriculture where productivity and real incomes have been trending down, encouraging more people to migrate to urban areas. With limited job opportunities in industry and high-value-added services, this inflow of labor is absorbed in low productivity and largely informal services, keeping aggregate productivity low while putting additional pressure on infrastructure and public services, particularly in the capital city, Antananarivo. The recent crisis has worsened this constraint as well with informality likely having increased further in urban areas, and more productive export-oriented sectors having been adversely affected.

**13. Finally, a lack of resilience to frequent shocks continues to hinder development prospects.** The frequency and magnitude of shocks, their multiple origins ranging from political, climate and health events, their adverse impacts on the poor, and the few mechanisms that exist to mitigate their effects all highlight this vulnerability. The many political crises that have marked Madagascar's post-independence history, including the most recent in 2009-12, have meant that the benefits of modest growth episodes have fallen victim to conflicts among political factions. Extreme weather events, including cyclones, floods and droughts, are perennial threats, particularly to dispersed rural populations that depend on agriculture. The ongoing pandemic, drought in the South, and the recent cyclones highlight how the impact of these shocks can be amplified by other factors such as poverty, weak infrastructure, lack of access to public services and insecurity. Past crises have led to lasting damage to potential output by depressing formal employment, impacting human capital development, and causing firms to delay or scale down investment plans. The current crisis is no exception.

**14. The level and coordination of development aid to address these challenges has improved, but the scope of donors' interventions has remained limited.** In 2019, Madagascar received net official





development aid amounting to US\$28 per capita, up from an historic low of US\$16.5 in 2012 but still only about half the average for Sub-Saharan Africa. This aid nevertheless accounts for more than 50 percent of public spending, which is a higher proportion than most aspirational peers, except for Rwanda. Most donor agencies are focused on a limited set of sectors, but coordination mechanisms were reinforced in recent years, particularly since the Donors and Investors Conference in 2016. Despite progress, donors' interventions have contributed little to improvements in development outcomes, reflecting the still modest size of foreign aid, insufficient political ownership of the programs, limited leveraging of private sector financing and the inability to trigger substantial governance reforms.

### *Pathways to More Rapid, Inclusive and Sustainable Growth*

15. **Reducing extreme poverty over the medium term will require significantly higher and more inclusive growth.** Raising the growth potential of the economy to at least 7 percent and increasing resilience to shocks are essential if Madagascar is to catch up with the development trajectory of its peers. The FY16 SCD objectives of improving governance, public financial management, private sector development, human capital, rural poverty, and natural resource management remain relevant today, but their focus needs to be adapted to changing circumstances. Specifically, this Update recommends an increased focus on structural transformation, resilience and better governance. In this context, the SCD Update identifies four complementary pathways to accelerate development: (i) enhance economic opportunities; (ii) improve service delivery, (iii) build resilience and (iv) strengthen governance, with the latter being a precondition for progress on other fronts. Each of these pathways addresses one or more of the constraints discussed above and put together, should help deliver more rapid, inclusive and sustainable growth.

16. **Economic opportunities need to be expanded by a combination of economy-wide and sector-specific reforms.** Among the required economy-wide reforms are legal and regulatory measures to improve the business climate, promote competition, and reduce barriers to domestic and international trade. Improving access to land, finance, and digital services will be key to stimulate structural transformation and should be designed so as to ensure that their benefits extend equally for men and women. Reforms in sectoral policies are important for agribusiness, apparel, tourism, ICT, and mining, where Madagascar has strong comparative advantages and should be complemented by measures to increase agricultural productivity through improved access to seeds, fertilizers, storage and financing, the adoption of higher-yielding production methods, extension services, and the removal of trade distortions.

17. **Efforts to improve access to infrastructure, education, health and nutrition services need to be scaled up.** This will play a key role in supporting a strong, inclusive and resilient recovery from the crisis. To strengthen the quality of basic infrastructure services, public investment management needs to be upgraded by reinforcing the capacity to screen, appraise and execute domestically financed projects, to better absorb and implement externally financed projects and to select economically and fiscally viable Public Private Partnerships (PPP) projects. Reinforcing access to energy and transport will require a mix of governance reforms and strategic prioritization of investments. Across social sectors, adequate domestic financing is needed, backed up by efforts to simplify budget execution procedures, strengthen financial management and accelerate decentralization. The civil service workforce for health and education can be managed better by ensuring that recruitment is transparent and merit-based, and by deploying it so as to address staffing imbalances across the country. To reduce adolescent fertility rates, family planning services will need to be reinforced while expanding girls' education, especially at the secondary and post-secondary level.



18. **More is needed to mitigate the impacts of adverse shocks, especially for the poor and vulnerable.** Given Madagascar's dependence on natural resources it is essential to make agriculture more resilient to climate shocks and improve the management of fisheries, mining and forests. Finding ways of increasing the adoption of climate-smart technologies and practices among farmers will be critical in this regard. Reforms should also be undertaken to improve the ability of people to deal with adverse shocks. The emphasis needs to be on both the chronically poor as well as those who are vulnerable to falling into poverty. For the former, it will be important to put in place more robust social assistance schemes while for the latter, implementing better social insurance systems will be key. Digital tools can help sharpen the impact of these interventions, for example through digitization of social protection mechanisms to improve targeting. Reinforced disaster risk management and early warning systems will also help increase resilience to climate shocks.

19. **Addressing governance weaknesses is critical to the success of the overall reform program.** Progress towards each of the three policy objectives above will require improvements in a range of dimensions of governance. Policy reforms aimed at enhancing economic opportunities, improving service delivery and building resilience will only help if they are implemented credibly and consistently by effective and efficient state institutions. Hence, improving governance and strengthening institutions are a cross-cutting pathway for progress. This requires more transparency and accountability by strengthening anti-corruption policies and institutions, reducing the risk of state capture, increasing citizens' voice, and deepening decentralization. Building government's institutions and administrative capacity will help increase the coverage and the quality of public services, including through multimodal service delivery adapted to low-connectivity environments.

#### *Prioritization of Policy Interventions*

20. **Priority interventions are those that, put together, can best increase the likelihood of reducing poverty in coming years.** Three criteria are used to identify these policies: (i) the likely impact of the proposed measure on monetary and non-monetary poverty, with an emphasis on its ability to increase both the level and quality of investments in order to accelerate economic and spatial transformation; (ii) the degree of urgency associated with the reform, particularly its ability to prevent longer-term damage from the economic, health and climate crises impacting the country since 2020; and (iii) the extent to which the intervention is necessary for other measures to yield benefits, including the necessity to improve legal, regulatory and institutional frameworks, improve public financial management and develop better checks and balances.

21. **Forceful responses to converging crises and an unwavering commitment to macroeconomic stability are essential pre-conditions to stimulate a broad-based recovery.** The impact of recent climate shocks needs to be mitigated through scaled up interventions in nutrition, safety net programs and connectivity infrastructures, while vaccination rates should be accelerated to reduce the risk of further disruptions associated with new variants of COVID-19. Given the breadth of development challenges and limited fiscal resources available to address them, much greater focus on the selectivity, planning, and execution of public investment projects will be needed, together with reforms to accelerate domestic resource mobilization and to ensure prudent management of public debt and contingent liabilities. It is also vital that the Central Bank continues to ascertain its credibility and independence in maintaining price and exchange stability and its commitment to strengthening its operational framework.

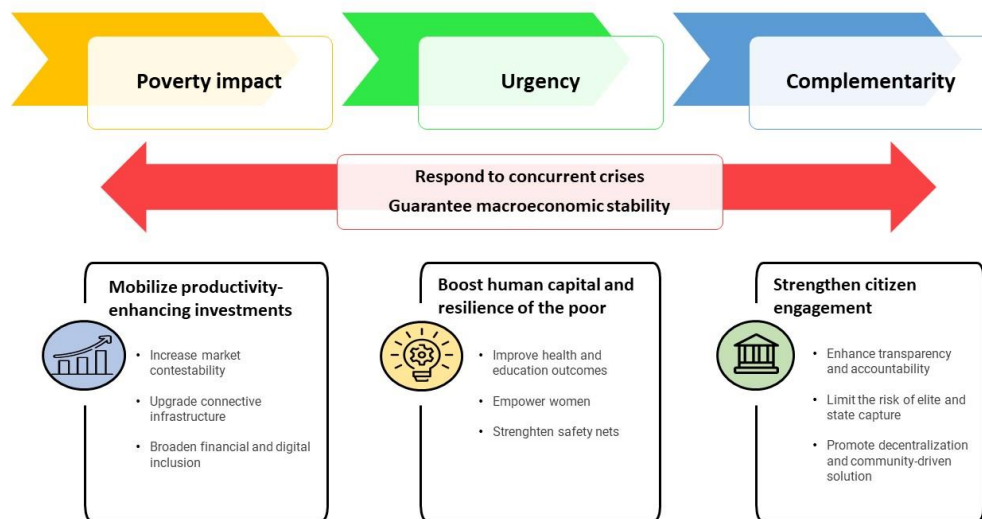
22. **Beyond these preconditions for poverty reduction in coming years, priority interventions were regrouped under the following three objectives:** (i) mobilize productivity-enhancing investments; (ii)



boost human capital and resilience to shocks of the poor; and (iii) strengthen citizen engagement (Figure ES2). These objectives are mutually reinforcing and should help put Madagascar on a path towards higher, more inclusive, and sustainable growth.

23. **Mobilize productivity-enhancing investments to accelerate economic and spatial transformation.** Attracting private investors in agriculture, in key connectivity infrastructures, and in sectors in which Madagascar has strong comparative advantages will require improved market access and contestability of incumbent companies. This entails reducing barriers to business creation, prohibiting cartels, ensuring greater consistency of rules applying to private investments across various sectors and special regimes, and easing processes for land acquisition and transfer. Connecting undeserved rural areas, supporting agglomeration around secondary cities, and developing effective industrial poles are key priorities to accelerate spatial transformation, and will require renewed efforts to support private investments in the power, water, ICT and transport sectors, alongside much needed reforms of public entities operating in these sectors.

Figure ES2 : Priority interventions



24. **Boost human capital and resilience to shocks of the poor to improve their welfare.** Improving health and learning outcomes will require the mobilization of additional domestic resources and reforms. Considerable efficiency gains in education and health sectors are possible in the short term, including through reforms in human resources, public financial management, results-based financing, and decentralization. Greater access to prenatal care, assisted deliveries, and effective nutrition programs will be key to reduce the incidence of child and maternal mortality as well as to reduce high stunting rates, while improved access of adolescent girls to secondary education will contribute to reduce high fertility rates in underserved areas. Strengthening social protection systems will ensure greater resilience to shocks, and can help stimulate better nutrition outcomes and increase the demand for health, education, and water services, so as to improve human development outcomes.

25. **Strengthen engagement of citizens to deliver better policy outcomes and limit state capture.** Making the state more responsive to the needs of citizens, especially the poor, requires regulatory reforms to increase the separation of private interests from public policies, stronger mandates and independence of anti-corruption institutions, the judiciary, and the court of accounts, better enforcement



of rules on asset declarations, asset recovery, and whistleblower protection, and international tax transparency. Greater autonomy and control of decentralized entities are also critical to improve service delivery and reinforce the link between public policies and citizens. Finally, community-driven solutions can help deliver better infrastructure and social services, particularly in more remote areas of the country where the state presence is limited.

26. **Meaningful progress will only be possible if there is strong political ownership and better targeting of interventions.** In a context characterized by severe capacity constraints, the government will need to demonstrate an unwavering commitment to reforms, set realistic targets, and be selective in its interventions, with a particular focus on growth, jobs, and poverty reduction.



## Introduction

1. **This Systematic Country Diagnostic (SCD) Update focuses on identifying the key constraints and opportunities for Madagascar to accelerate growth while ensuring it is inclusive and sustainable.** It builds on the conclusions of the previous SCD, which continues to resonate five years after its completion as little progress in development and policy outcomes were achieved since then, while providing new insights into how the most salient constraints to poverty reduction might be addressed.<sup>4</sup> The key question that the Update is addressing, is what priority interventions are required in the short and medium term to set Madagascar on the path of sustainable and broad-based development, characterized by lower extreme poverty and greater inclusion.<sup>5</sup> This question takes on greater relevance in light of the unprecedented and ongoing impacts of the COVID-19 pandemic, acute food insecurity in the South of Madagascar and a sequence of damaging cyclones in early 2022. The analysis and conclusions of this Update will feed into the preparation of the World Bank Group's next Country Partnership Framework for Madagascar, which will also build on an analysis of government priorities, the World Bank's comparative advantage and complementarity with the engagement of other development partners.

2. **The previous SCD, which forms the basis of this Update, highlighted key challenges of accelerated growth, greater inclusiveness and sustainability in five key areas.** These areas were: governance; public finances; private sector development; human capital; and rural poverty and natural resource management. The SCD emphasized how poor governance had constrained revenue mobilization, reduced private investment, and hampered natural resource management.<sup>6</sup> Limited fiscal revenues and ineffective public financial management meant that the government was unable to undertake needed investments to support economic growth and to provide public services to raise human capital. Falling per capita incomes, rapid population growth and weak governance placed pressure on renewable natural resources and contributed to their rapid depletion. On this basis, FY16 SCD identified a mix of short- and medium-term measures to address these constraints organized under 17 policy objectives, for which mixed progress was observed in recent years reflecting a combination of slow reform implementation, some policy reversals, and the impact of the COVID-19 pandemic (see Annex 1 and Chapter 2 for a detailed analysis of reform progress since FY16).

3. **In the period following the completion of the FY16 SCD, Madagascar saw modest gains in income per capita and poverty reduction until COVID-19 hit in early 2020.** The economic recovery that started with the return to constitutional order in 2013 and gradually strengthened up until 2019 was supported by renewed political stability, the reopening of export markets, and the reengagement of donors. Despite these support factors, real GDP growth only averaged about 3.5 percent over that period, 80 percent of which was accounted for by mining, construction, telecommunications, and financial services. Sectors where Madagascar is considered to have strong comparative advantages such as textile, agribusiness and tourism contributed marginally to growth over the period while agriculture stagnated, and low-productive informal services in urban areas continued to absorb a growing proportion of the

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<sup>4</sup> Pursuant to the SCD Guidance and as detailed in the recommendation memorandum from September 2020, the Madagascar SCD was processed as an Update given that: i) the development narrative and policy priorities of the FY16 SCD remained valid; ii) the FY16 SCD was comprehensive and followed rigorous analytical and review processes; iii) the FY16 SCD was based on rich data and analytical evidence, and the SCD Update will complement it with new knowledge.

<sup>5</sup> Since 80 percent of the population of Madagascar lives in extreme poverty (as defined by the international poverty line of US\$1.90 per day at 2011 PPP), the SCD Update focuses on poverty rather than on shared prosperity, as the income of the bottom 40 percent of the population is well below the poverty line.

<sup>6</sup> See World Bank, 2016.



workforce. Overall, structural transformation made limited headway and income per capita gains, which averaged less than 1 percent per year, were insufficient to create economic opportunities for the poor. As a result, indicators of monetary and non-monetary poverty registered only limited progress in the decade before the pandemic. The onset of the COVID-19 crisis in early-2020 has reversed even these tentative gains, wiping out nearly two decades of efforts in raising per capita incomes and likely bringing the poverty rate to an all-time high of 80 percent. Based on pre-crisis trends, it would take Madagascar 10 years of uninterrupted growth to reverse the loss in average incomes that occurred during the recent crisis and 73 years to reach current living standards in Rwanda, its closest aspirational peer. This emphasizes the urgency of accelerating reforms and mobilizing priority investments to boost growth and ensure that it is broadly shared.

**4. This Update builds on the FY16 SCD by emphasizing the constraints that have become even more salient in recent years, including in the wake of the COVID-19 pandemic and severe climate shocks.**

The analysis suggests that the cross-cutting constraint to more rapid, inclusive and sustainable growth in Madagascar remains weak governance.<sup>7</sup> This constraint feeds into and is in turn amplified by constraints that stem from three key structural features of the economy in Madagascar. These features are: (i) low levels and poor quality of its human and physical capital, including deteriorating infrastructure; (ii) low levels of productivity associated with a lack of structural transformation; and (iii) the high degree of vulnerability to climate, economic and political shocks that is reflected in frequent, deep and persistent crises. Each of these structural characteristics interact with each other in ways that limit prospects for broad-based development.

**5. The basic hypothesis, which builds on and sharpens the FY16 SCD, is that weak governance lies at the heart of Madagascar's development challenges.**

These governance challenges stem from the concentration of power, state capture, and poor representation of isolated, underserved and vulnerable populations. Each of these factors affects the choice, design and implementation of policies, the functioning of state institutions and the regulation of markets. Consequently, policies and institutions have been relatively ineffective at accelerating structural transformation; improving resilience to shocks; and raising the level and quality of human and physical capital to support faster growth and job creation, particularly in lagging regions.

**6. The Update draws on and integrates recent analysis and updated statistics that have become available since the FY16 SCD.**

In particular, the Update synthesizes the findings of recent analytical work, including the Poverty Assessment (2016), the Country Economic Memorandum (2020), the Country Private Sector Diagnostic (2021), and the ongoing Gender Diagnosis (forthcoming, 2022), Public Expenditure and Investment Review (forthcoming, 2022), Risk and Resilience Assessment (forthcoming, 2022), and Country Environmental Assessment (forthcoming, 2022). Data from recent surveys, including the Madagascar Multiple Indicator Cluster Survey (2018), the Population Census (2019), and High Frequency Phone Surveys to assess the impact of COVID-19 on household welfare (2020, 2021), and the Business Pulse Survey (2021) have also been incorporated into the analysis. A more complete list of analytical work supporting this SCD Update and informing the identification of constraints is presented in Annex 2.

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<sup>7</sup> "Governance" is defined (following WDR 2017) as the process through which state and nonstate actors interact to design and implement policies within a given set of formal and informal rules that shape and are shaped by "power". "Power" is the ability of groups and individuals to make others act in their interests so as to bring about specific outcomes.

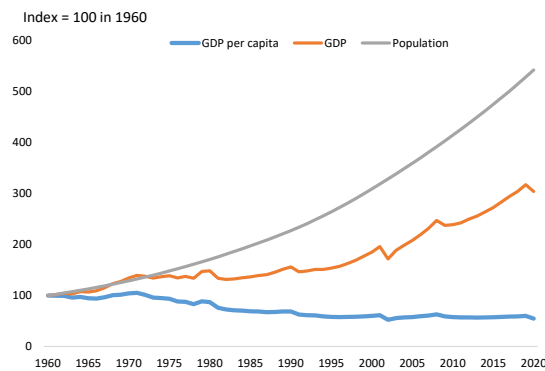


## Chapter 1: Growth, Poverty and Sustainability Trends

### Falling Incomes and Rising Poverty

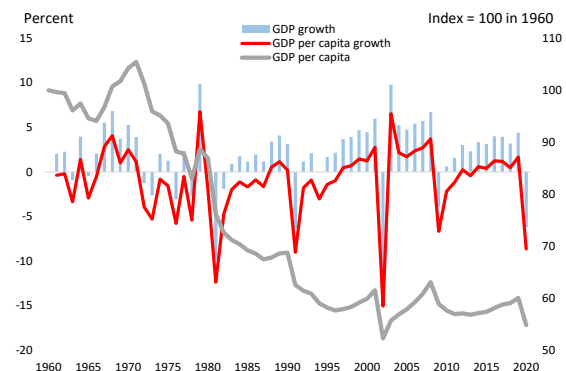
7. **Living standards have not improved over the last two decades and are 45 percent lower today than they were in 1960.** Despite its rich natural resources, integration in the global economy, and young workforce, Madagascar was never able to generate sufficient economic growth to increase living standards in a sustained fashion. Since independence in 1960, Madagascar’s population has increased fivefold whereas economic activity has only tripled (Figure 1). As a result, real GDP per capita in 2020 was about 45 percent lower than in 1960, with most of the losses occurring during a long period of economic stagnation from the early 1970s to the mid-1990s (Figure 2). Since then, gains accumulated during modest growth episodes were reversed by severe shocks, including two major political crises (in 2001-02 and 2009-12) and, more recently, the COVID-19 pandemic that began in 2020. Madagascar is one of only six countries where real per capita incomes are lower today than they were around 1960, and the only country to have experienced declining incomes in the absence of armed conflict (Figure 3). This long-term fall in per capita income and the recent experience with stop-go growth episodes are the main reasons that an estimated 80 percent of the population still lives in extreme poverty (below the international poverty line of US\$1.90 per day in 2011 PPP), up from 68 percent in the early 2000s, and 46 percent in the early 1980s. The correlation between income per capita and extreme poverty trends is particularly strong for Madagascar – 0.9 compared to an average of 0.6 for aspirational peers<sup>8</sup> and around 0.2 across Sub-Saharan African countries (Figure 4).<sup>9</sup>

**Figure 1: GDP, population, and income per capita levels**



Source: Instat, World Bank

**Figure 2: GDP per capita growth and crisis episodes**



Source: Instat, World Bank

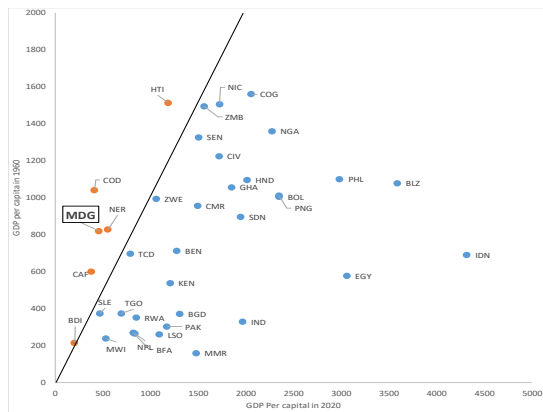
Note: recession episodes are 1972-73, 1978, 1981-82, 1991, 2002, 2009, 2020

<sup>8</sup> For this Update, Madagascar’s aspirational peers are Bangladesh, Cambodia, Rwanda, Tanzania and Uganda. The selection criteria were the following: similar GDP per capita levels and economic structure to those of Madagascar in 2000 and significantly faster improvements than for Madagascar since 2000 in GDP per capita and monetary poverty.

<sup>9</sup> Cross-country empirical findings generally confirm a strong link between the evolution of average income per capita and that of monetary poverty, particularly in low-income countries. For instance, Dollar, Kleineberg, and Kraay (2016) and Bergstrom (2020).

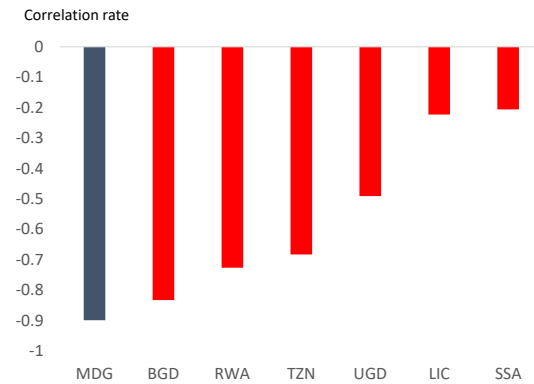


Figure 3: GDP per capita in 1960 and 2020



Source: Instat, World Bank

Figure 4: Correlation between changes in real GDP per capita and changes in poverty rates



Source: World Bank

Note: bars refer to the correlation between changes in per capita GDP and changes in the poverty rate during the years of available households' survey data since 1980.

### A Modest Recovery Since 2013, Reversed by the 2020 Recession

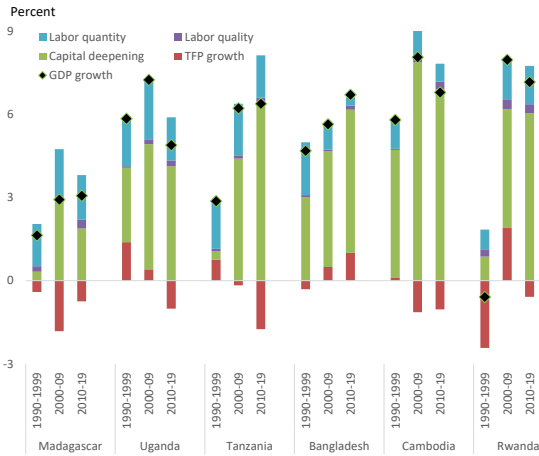
8. **Prior to the COVID-19 crisis, Madagascar's economy was growing at a modest pace.** As with previous recoveries, it was a return to political stability that helped spur this modest economic revival from 2013 to 2019. The upturn was helped by a reopening of key export markets, a resumption of concessional financing flows, and stability-oriented fiscal and monetary policy reforms. Despite this positive momentum, growth peaked at a modest 4.4 percent in 2019 and averaged only 3.5 percent over the period 2013-19, which barely surpassed population growth and was significantly weaker than the previous investment-led upturn of the mid-2000s. Overall, GDP per capita increased at an average rate of 0.7 percent per year from 2013 to 2019, which was insufficient to create economic opportunities for the poorest.

9. **Weak investment rates and declining productivity were the two key factors holding back Madagascar's expansion before the pandemic.** A growth accounting exercise reveals striking differences with aspirational peers in recent years, with capital deepening contributing between 2 and 4 times less to GDP growth in Madagascar than in Uganda, Tanzania, Bangladesh, Cambodia, and Rwanda (Figure 5). This reflects a downward trend in private investment rates which was only partially offset by a gradual recovery in public investments. Total factor productivity (TFP) growth also continued to decline, due to severe dislocations associated with the 2009-12 crisis, a lack of productivity gains in agriculture where the majority of the population works and insufficient job opportunities in high-value-added industry and high-end services to absorb new labor market entrants. From a longer-term perspective, productivity gains never made a sustained contribution to growth in Madagascar, unlike the experience of peers like Uganda during the 1990s, Rwanda during the 2000s and Bangladesh since the 2000s.



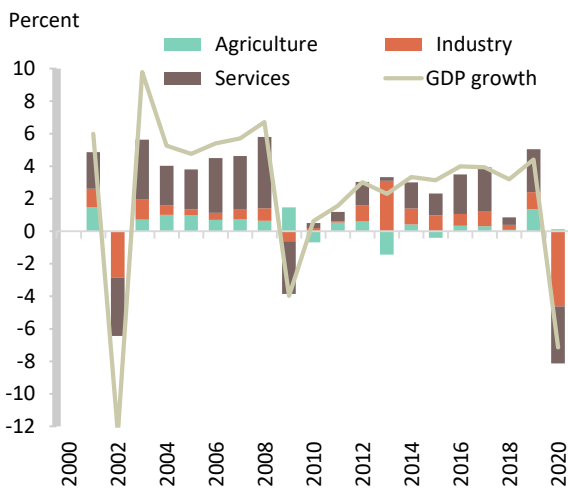


Figure 5: Growth accounting



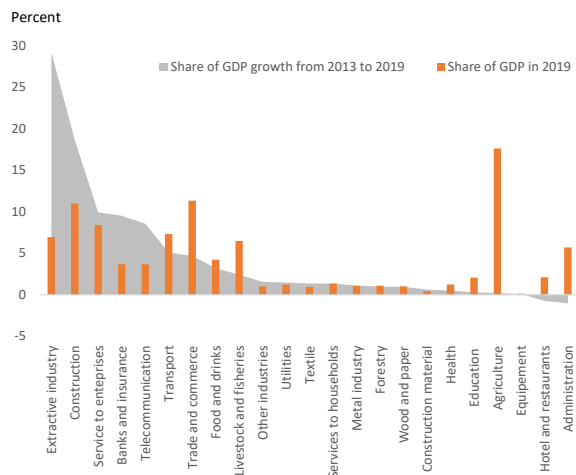
Source: Conference Board, World Bank

Figure 6: GDP growth



Source: Instat, World Bank

Figure 7: Sectoral contributions to GDP growth



Source: Instat, World Bank

10. **Madagascar’s economy remains largely dominated by agriculture and low productivity services, with only a handful of sectors driving growth prior to the pandemic.** Rebased national accounts data published in 2019 have confirmed that Madagascar is primarily a service-oriented economy, with a small but faster growing industrial sector and a large but stagnant agricultural sector. These revised national accounts also depicted a less dynamic economy during the pre-pandemic upturn, reflecting for the most part the higher share of primary sector activity in GDP (Box 1). Overall, the service sector contributed 55 percent to GDP growth during the period 2013-19, roughly in line with its share in the economy (Figure 6). Services to companies, banking, and telecommunications accounted for about a third of GDP growth during that period, reflecting both the size of these sub-sectors and robust growth in the case of banking and telecommunications (Figure 7). Construction and public works also made a significant contribution as public investments were gradually increased from extremely low levels in 2012, while transport contributed less than its weight in the economy, as deteriorating infrastructure quality and the slow



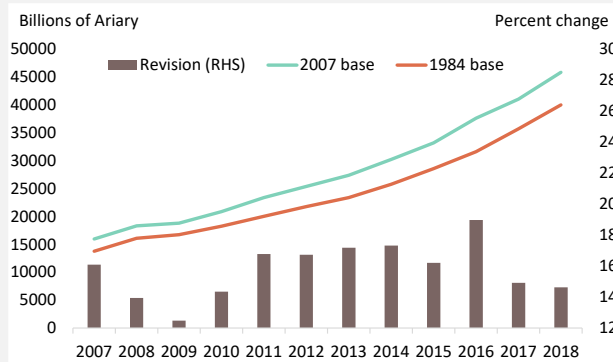
recovery of tourism activity following the 2009-13 constitutional crisis constrained the sector’s development. Although commerce remains the largest service subsector, it grew slowly as it remained dominated by small informal companies and constrained by subdued consumer demand and limited incentives for formalization. Industry, which includes manufacturing and the extractive sector, grew at 8.6 percent and contributed about half of GDP growth in 2013-19. This expansion was mostly driven by two large mining projects that began production respectively in 2009 and 2012. In contrast to niche agribusiness sectors that performed relatively well prior to the pandemic, the subsistence agriculture sector has been stagnant, dragging down overall growth and limiting economic opportunities for a fast-growing rural population. This poor performance reflected several years of low crop production due to locusts, cyclones and droughts, as well as the impact of deteriorating infrastructure and productivity.

**Box 1: Rebased National Accounts, Economic Structure, and Growth Dynamism**

**The rebasing of national accounts provides a more accurate if somewhat sobering picture of the state of Madagascar’s economy.** The adoption of the 1993 System of National Accounts framework, a shift in the base year from 1984 to 2007, and updated information on agricultural, mining and services subsectors, have led to significant revisions to GDP data, showing a larger but less dynamic economy.

**Significant upward revision to GDP levels.** The new national accounts data (extending back to 1984), led to an upward adjustment in GDP levels, ranging from 16.1 percent for the base year 2007 to 14.6 percent in 2018, the last year for which overlapping data is available (Figure B1). The increase in GDP levels due to the adoption of the 1993 SNA framework reflects the inclusion of new components such as the consumption of self-produced agricultural products and imputed rents, the introduction of new products and services that were not tracked under the old system, and the use of updated data from household and informality surveys and the latest agriculture census.

**Figure B1: Nominal GDP levels and revisions**



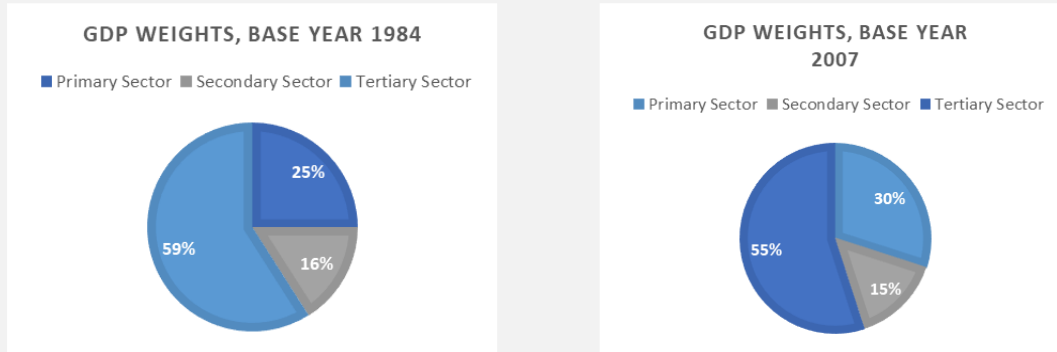
Source: Instat, World Bank

**The relative size of the agriculture sector increased at the expense of the tertiary sector, but both showed weaker momentum in the revised data.** Following the rebasing of GDP, the weight of the primary sector increased significantly, from 25 to 30 percent of GDP, reflecting the inclusion of the above-mentioned changes in methodology and new data (Figure B2). In parallel, real activity in that sector is now estimated to have shrunk at an annual rate of -0.3 percent over the period 2013-18, compared with stagnant output in previous national accounts. The tertiary sector remains dominant, accounting for 55 percent of GDP in the latest estimates, but that share was revised down from 59 percent, and real activity was less dynamic than previously estimated, with growth averaging 2.7 percent over the period 2013-18, against 3.4 percent previously. In contrast, the share of



the secondary sector remained stable at around 15 percent, and real activity increased at a faster pace, with growth averaging 8.9 percent over the period 2013-18, up from 8.6 percent previously.

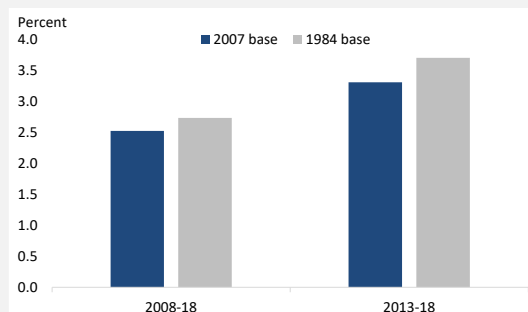
Figure B2: Sectoral distribution of GDP – in percent of total



Source: Instat

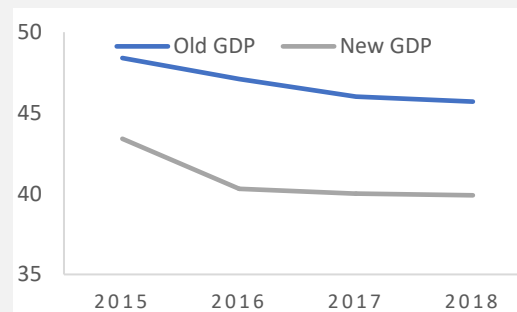
**Real GDP growth is revised down in the new national accounts data, particularly in the years leading up to the pandemic.** The combined impact of the increasing weight of the primary sector and its weaker momentum, together with a somewhat less dynamic tertiary sector, led to downward revisions to the growth trajectory of the economy. Real GDP growth is now estimated to have averaged 3.3 percent over the period 2013-18, compared with 3.7 percent previously. The revision is somewhat less pronounced over the entire 2008-18 sample period, from 2.7 percent to 2.5 percent, but still noticeable (Figure B3). This translates into cumulative gains in GDP per capita of only 3.9 percentage points from 2013 to 2018, compared with 6.1 percent according to the previous national accounts data. This implies a 35 percent reduction in estimated gains in GDP per capita over that period.

Figure B3: Average real GDP growth



Source: Instat, World Bank

Figure B4: Debt-to-GDP Ratio – in percent



Source: Instat, World Bank

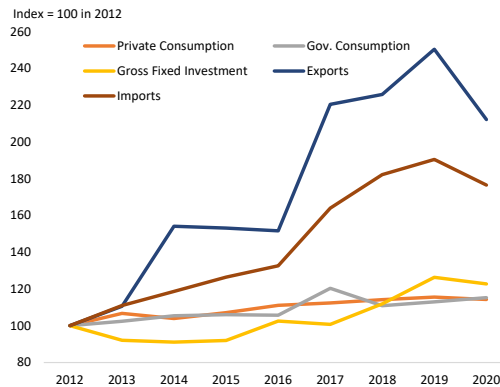
**Debt sustainability indicators have generally improved, but the tax-to-GDP ratio was downgraded to one of the lowest in the world.** While the public debt-to-GDP ratio was revised down to 39.9 percent of GDP in 2018, from 45 percent previously (Figure B4), the tax-to-GDP ratio has turned out to be even further below the standard of comparable countries at 9.1 percent of GDP in 2018. Other indicators of debt sustainability, which are calculated relative to tax or export revenues remained broadly unchanged since the latter were unaffected by the rebasing of national accounts.

11. **Madagascar has comparative advantages in key export sectors but was unable to leverage them to accelerate structural transformation.** The post-2013 recovery was supported by a resumption of exports, which was the most dynamic component of aggregate demand over that period (Figure 8). This



contribution of external trade despite poor connectivity, a challenging business climate and high non-tariff barriers demonstrates the existence of strong comparative advantages associated with unique natural resources, high-end branding in some niche markets, affordable labor, and access to fast broadband internet in urban areas. The sectors with the highest revealed comparative advantage during 2013-19 upturn were mining, apparel and textiles, agribusiness and fisheries, which together account for about three quarters of the country’s total merchandise exports.<sup>10</sup> New products in which Madagascar did not have a comparative advantage ten years ago but does at present, have recently appeared in high-end woven products and processed food. IT-related services, including call centers, business processing operations and software development, had also been growing at a fast rate in years leading up to the pandemic, supported by strong demand and a relatively robust stream of computer science students (around 8,000 per year). Despite those comparative advantages, the contribution of most of these sectors to growth and economic transformation has been limited, with fisheries, livestock, food processing, textile, hotels and restaurants adding together about 0.2 percentage points to annual growth between 2013 and 2019, reflecting a lack of investment in productive capabilities and barriers to market access.

Figure 8: Demand components, volume



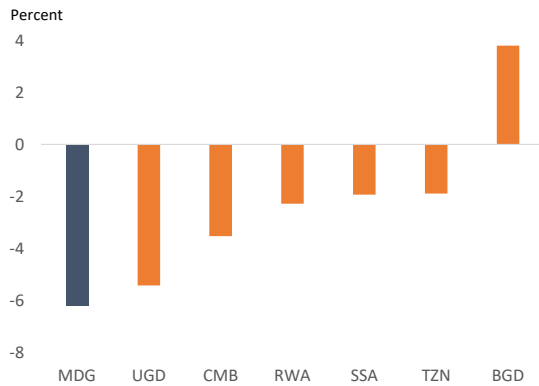
Source: Instat, World Bank

12. **The COVID-19 pandemic led to a sharp decline in economic activity.** The initial impact of the crisis induced by COVID-19 has been severe, with the collapse of export revenues and private investment resulting in a GDP contraction of 7.1 percent in 2020, the sharpest recession in over two decades and a significantly larger drop than observed among peer countries and across Sub-Saharan Africa (Figure 9). A second wave of the pandemic in 2021 and continued closure of international borders have further delayed the recovery, with growth in 2021 likely to remain insufficient to prevent a second consecutive year of a fall in GDP per capita. Although historic droughts and locust infestations in the South led to widespread crop failure and acute food insecurity affecting nearly half of the population in the Region, these had a limited impact on overall GDP given the small share of agricultural production and consumption generated in that region. Overall, income per capita contracted by 9.8 percent in 2020, presenting the sharpest crisis since 2002 and reversing two decades of cumulative gains in living standards. On the positive side, fiscal policy was able to play a stabilizing role during the recession as the government’s access to concessional lending allowed it to ramp up public spending, in sharp contrast with previous crisis episodes, which were characterized by fiscal contractions (Figure 10).

<sup>10</sup> Madagascar Country Economic Memorandum (2020)

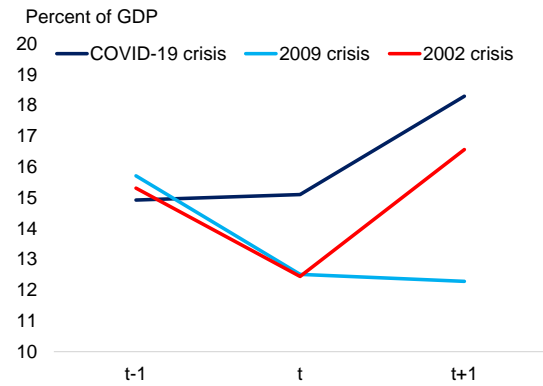


Figure 9: GDP growth in 2020 in Madagascar and peer countries



Source: Instat, World Bank

Figure 10: Public spending to GDP ratio during crisis episodes



Source: Ministry of Economy and Finance, World Bank

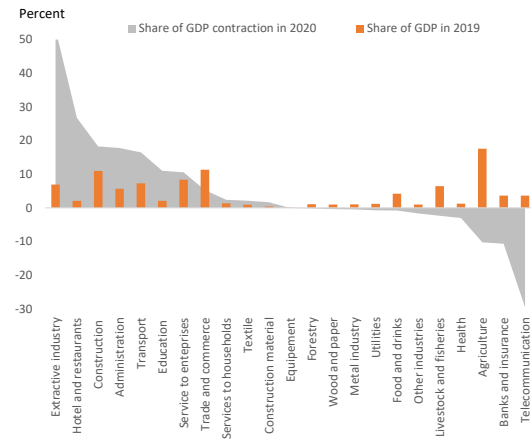
13. **Mining, tourism, transport and public services were hardest hit.** Industrial output contracted by -19.5 percent in 2020, which was its largest annual decline since 2002. The extractive industry was hurt the most by the crisis, posting a drop in output of -47 percent, which accounted for 50 percent of the GDP contraction in 2020 (Figure 11). The substantial decline in industrial activity during 2020 led a large number of businesses to close or temporarily suspend their activity. Tertiary sector activity suffered a sharp contraction as well, dropping -5.2 percent in 2020, with its share in GDP reaching its lowest level in five years. Hotels and restaurants were the most affected, with a drop of -79 percent in value added, which accounted for a little over a quarter of the GDP contraction in 2020. In November 2021, commercial air traffic resumed but the recovery in tourism activity has been slow and will largely depend on the evolution of the pandemic in Madagascar and globally. Construction and public works also fell substantially, reflecting the impact of the interruption of public services, lockdowns in major cities and the suspension of international travel. In contrast, telecommunications, healthcare and financial services posted significant gains, which helped offset contractions in other services subsectors.

14. **Agriculture, livestock, fishing and forestry experienced low but positive growth in 2020.** In particular, rice and cassava production, which account for a significant share of food consumption, increased in 2020, while the output of forestry, livestock and fishing subsectors was stagnant. Despite gains in agricultural output at the national level, extreme droughts and locust infestation in the South led to widespread crop failures and rising food insecurity. The lack of pasture and water led to livestock deaths, while an outbreak of Rift Valley Fever affected pastoralist livelihoods.

15. **Smaller and less-established enterprises have been hurt more by the pandemic-induced downturn.** While all firms were impacted by the economic downturn, with sales collapsing by more than 40 percent on average in 2020, small and medium-sized enterprises (SMEs) experienced the biggest revenue contraction, and have also shed the most jobs. In general, large firms were able to preserve their employment levels (Figure 12). Businesses with access to digital platforms have fared better as they were able to ensure the continuity of their activities and consequently, protect jobs. Out of the surveyed firms, 41 percent were able to improve their operations thanks to digital technologies, with social distancing measures accelerating the use of digital technologies for both public and private services.

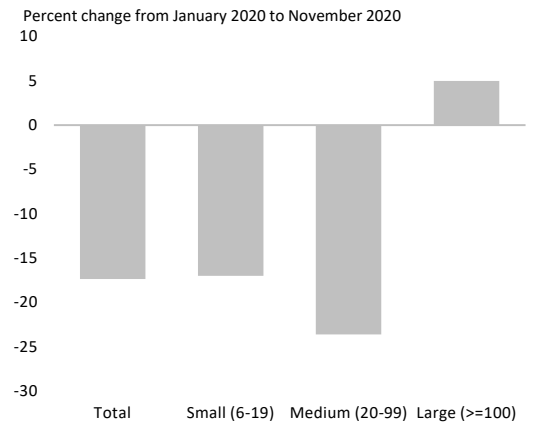


Figure 11: Sectors’ contribution to the GDP contraction in 2020



Source: Instat, World Bank

Figure 12: Employment change by firm size



Source: Instat, World Bank, High Frequency Surveys (2020)

### Little Reduction in Poverty Before a Sharp Uptick During the Pandemic

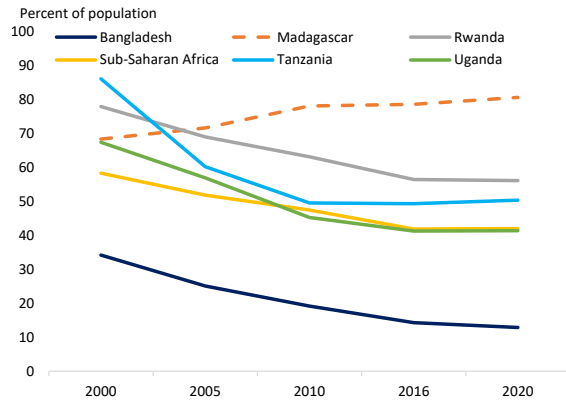
16. **The economic recovery that preceded the pandemic was accompanied by a modest decline in monetary poverty.** With the resumption of growth from 2013 to 2019, the share of the population living in extreme poverty (below the international poverty line of US\$1.90 per day in 2011 PPP) is estimated to have fallen slightly from 78.8 percent in 2012 (the last year for which household survey data is available<sup>11</sup>) to 76.5 percent in 2019,<sup>12</sup> just prior to the 2020 crisis (Figure 13). The persistence of high monetary poverty during this recovery period reflected primarily the slow pace of income growth and the associated lack of economic opportunities. The prevalence of extreme poverty was significantly higher in rural areas, due to low and generally declining labor productivity in agriculture, the lack of accumulation of productive and human capital, and exposure to frequent climate shocks. As the overwhelming majority of the labor force still worked in self-subsistence agriculture and increasingly in low-productivity and mostly informal services, opportunities to lift people out of extreme poverty at scale were limited during the upturn (Figure 14).

<sup>11</sup> The results of the 2021/22 household survey are expected to be available around mid-2022.

<sup>12</sup> When household survey data are not available for a given year, data from national accounts are used to extrapolate monetary poverty. This is done based on two assumptions. First, the distribution of income observed in last survey year is considered as unchanged. In other words, the growth rates of consumption / income are the same along different income levels. Second, gains in real per capita income from national accounts are converted into gains in survey-based measures of personal consumption to estimate poverty rates. The conversion uses a “pass-through” rate, which we estimate to be 0.87. This implies that for every 1 percent gain in income per capita from national accounts, survey-based personal consumption measures is assumed to grow by 0.87 percent.

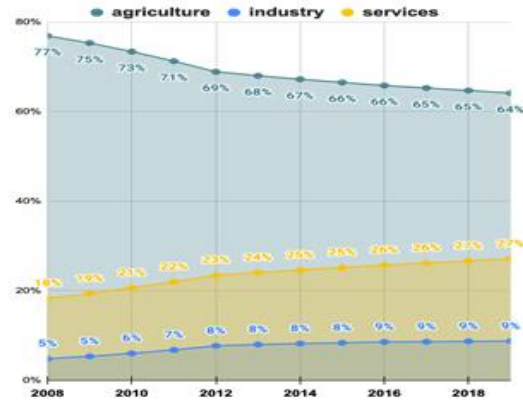


Figure 13: Poverty rate



Source: World Bank  
Note: data for 2020 is estimated for all countries. Data for 2016 is estimated for Madagascar.

Figure 14: Sector of employment



Source: World Bank

Figure 15: Indicators of deprivation in Madagascar

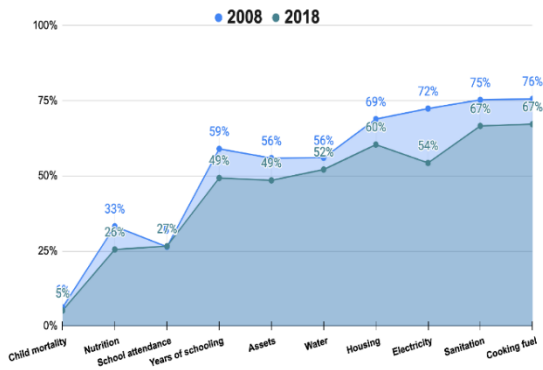


Figure 16: Overall deprivation rate in Madagascar and aspirational peers

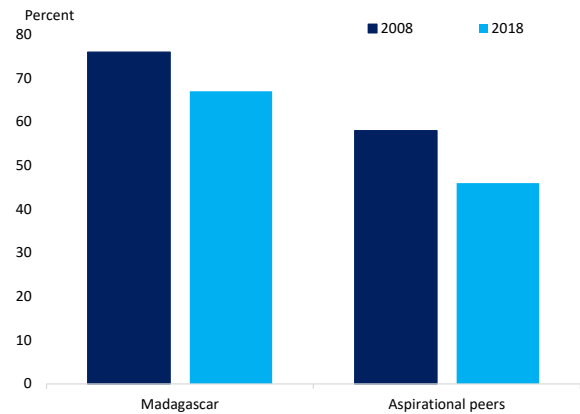


Figure 17: Indicators of deprivation in the Northern province of Sava (North)

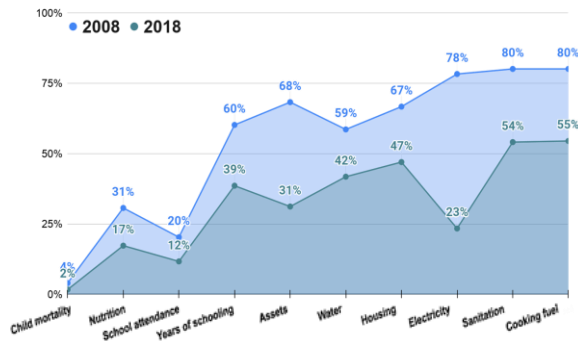
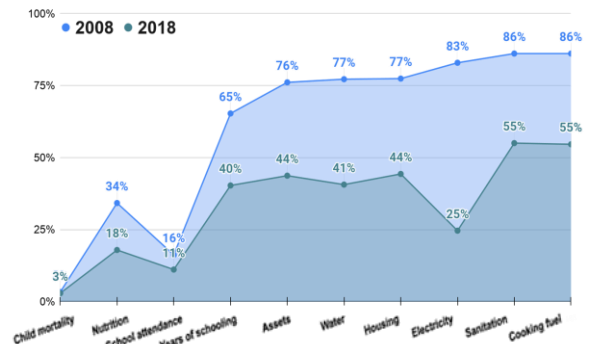


Figure 18: Indicators of deprivation in the Northern province of Analanjirofo (North)



Source: MICS (2018), DHS (2008), World Bank. For peers, the source is Oxford Poverty & Human Development Initiative (OPHI).  
Notes: Aspirational peers are defined as the simple average of Bangladesh, Cambodia, Rwanda, Tanzania and Uganda



17. **Some indicators of non-monetary poverty improved before the pandemic, with gains largely concentrated in the wealthier Northern regions.** Among measures of non-monetary poverty,<sup>13</sup> Madagascar saw noticeable improvements in access to electricity, housing, sanitation, and cooking fuel, while child mortality rates and access to water made limited headway and school attendance stagnated at low levels (Figure 15). On average, the total deprivation rate at the national level is estimated to have decreased by 9 percentage point between 2008 and 2018, reaching 67 percent (Figure 16). This remains more than 20 percentage points above the average of aspirational peers, which also saw more rapid improvements over the same period, particularly in access to electricity, clean water and housing. Given the poor economic performance of Madagascar over the last decade and a modest increase in resources dedicated to strengthening service delivery, the improvement in non-monetary poverty indicators is a welcome development, even though gains remained modest and were largely concentrated in wealthier regions in the North. In fact, the Diana, Sava, Sofia, and Analanjirifo provinces saw reductions in overall deprivation rates of more than 20 percentage points (Figures 17 and 18), reflecting in part the benefit of development programs in those regions but also the accumulation of assets due to revenues generated by high-valued agribusiness products such as vanilla, lichees, spices and cacao.

Figure 19: Indicators of deprivation in urban areas (South)

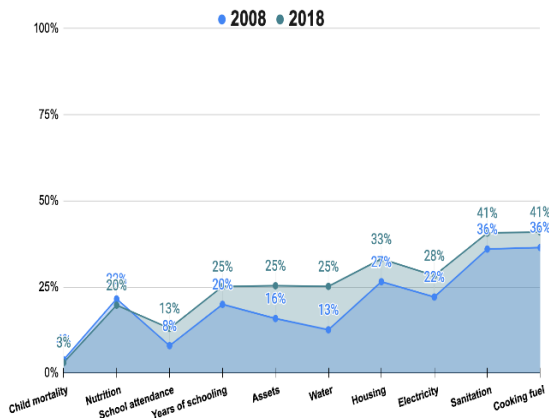
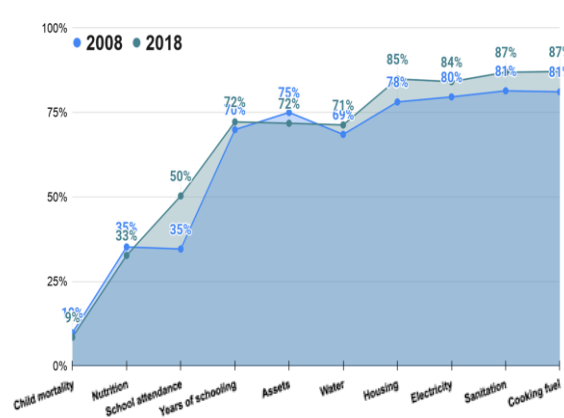


Figure 20: Indicators of deprivation in the Southern province of Atsimo-Andrefana (South)



Source: MICS (2018), DHS (2008), World Bank.

18. **Non-monetary poverty indicators deteriorated in urban areas and mostly stagnated in the poorest regions in the South.** While deprivation rates are still about twice lower in urban areas compared with rural areas, they deteriorated over the period 2008-18 against the backdrop of rapid urbanization (Figure 19). In fact, the urban population in Madagascar has been growing at one of the fastest rates in Sub-Saharan Africa (4.7 percent per annum), and is increasingly concentrated in the Antananarivo, putting severe strains on infrastructure and public services, as reflected in deteriorating access to water, electricity, sanitation and housing. In rural areas, the fact that provinces that had been lagging behind in the past have made the least progress since 2008 and continue to have the highest levels of deprivation is of great concern. Regions in the Southern provinces of Toliara and Fianarantsoa, which had the highest level of deprivation in 2008, with some having more than 90 percent of its households being multi-

<sup>13</sup> Multidimensional poverty is based on several indicators, including educational attainment, child mortality, and access to water, sanitation, housing, and electricity. The indicator is derived from harmonized surveys in the World Bank’s Global Monitoring Database, which include the most recent Census (2018).





dimensionally poor, are still the worst off. And on some indicators, many parts of these provinces are doing worse. In Toliara, for instance, all but one region experienced a decrease in the population with improved access to water even before the extreme droughts experienced since 2019. Toliara and Fianarantsoa provinces also still have the highest levels of child mortality across the country with only marginal improvements in the past decade. School attendance stagnated and dropped considerably in the Southern province of Atsimo-Andrefana (Figure 20).

19. **The pandemic has likely reversed more than a decade of gains in poverty reduction.** The share of the population in extreme poverty is estimated to have risen to 81 percent in 2020, up from 76.5 percent in 2019, implying that an additional 1.8 million people now live below the international poverty line of US\$1.90/capita/day (in 2011 PPP), primarily as a result of the pandemic. These impacts reflect job losses during the recession, which were particularly severe in transport, tourism, and trade, and declining incomes more generally (Figure 21). By the end of 2020, 48 percent of employees reported having received their normal wage, while 31 percent had received no payment since the start of the crisis (Figure 22). In this context, the share of households that reported having reduced food consumption, sold assets, and/or borrowed in response to the pandemic increased significantly during the crisis, with 50 percent of all households reporting that they did not have enough food to eat at the end of 2020 (Figure 23).

Figure 21: Percent change in employment

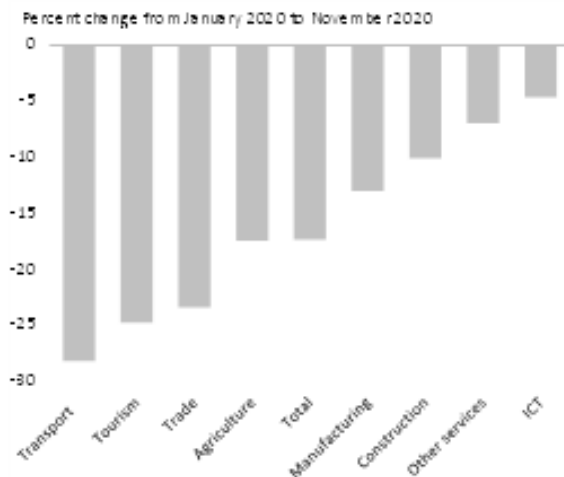
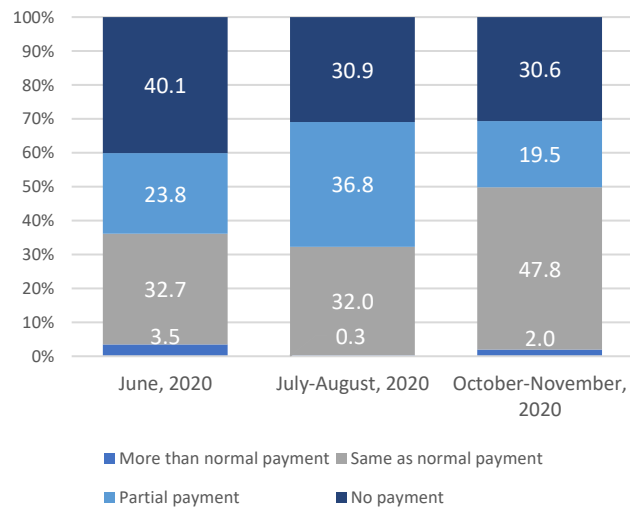


Figure 22: Payment of remuneration (% of employed individuals)



Source: Instat, World Bank, High Frequency Surveys (2020)

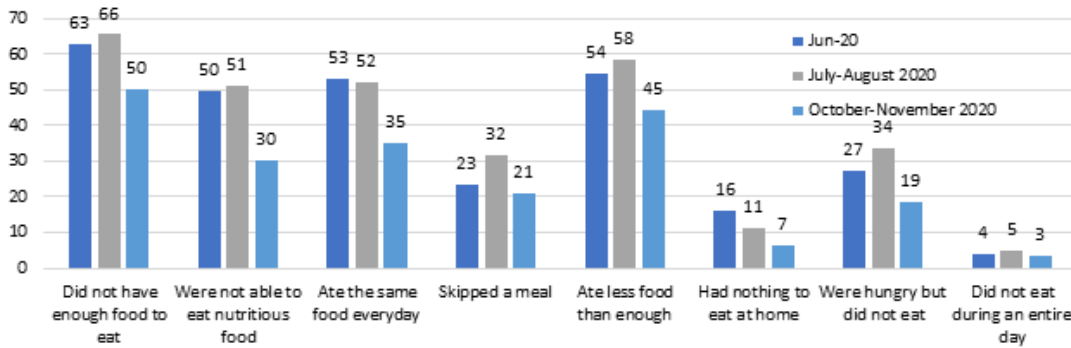
Notes: The results are based on High Frequency Survey (HFS) among households and firms. The 1<sup>st</sup> wave took place in mid-June reaching 1,240 households. The second and the third waves covered each 1,580 households and took place in August and November 2020 respectively.

20. **Access to health and education have also deteriorated during the pandemic.** In addition to its impact on consumption poverty, the crisis likely affected access to services. First, health facilities were underutilized as people were reluctant to seek care due to fear of contracting the virus, lockdowns and higher transport costs. Basic health coverage plummeted (including child vaccination rates and tuberculosis testing). This was followed by a surge in hospital patients, and high infection rates among health staff leading to high absenteeism rates and staff shortages. Estimates suggest that due to disruptions in health services, child mortality and maternal mortality in Madagascar could increase in 2021 by 18 percent and 12 percent respectively. School closures increased already high drop-out rates among



poorer children, while household surveys indicate that the proportion of school-age children engaged in home review and using learning material provided by teachers dropped in the course of the pandemic, likely worsening learning outcomes. Gender-based violence (GBV) also increased during the pandemic, and girls in poor households are more likely to be subject to child marriage and early pregnancy with the crisis hindering provision of services to address GBV and protect young girls.

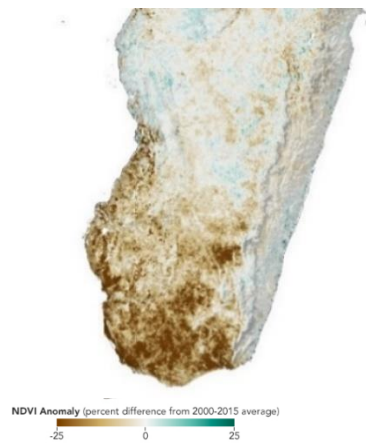
Figure 23: Share of households experiencing food insecurity



Source: Instat, World Bank, High Frequency Surveys (2020)

Notes: The results are based on 3 waves of the High Frequency Survey (HFS). The 1<sup>st</sup> wave took place in mid-June reaching 1,240 households. The second and the third waves covered each 1,580 households and took place in August and November 2020.

Figure 24: Drought intensity in 2020-21



Source : NASA

21. **Droughts in the South have worsened long-standing vulnerabilities.** Decades of underinvestment compounded by three consecutive years of severe drought—with impacts amplified by COVID-19 and other covariate shocks—have reduced food production, stocks, and access across Madagascar’s Grand South region during 2020 and 2021. Exceptionally low rainfalls (Figure 24) caused devastating damage to agricultural production during the main harvest in 2021, with losses of up to 60 per cent in three of the most populated districts (Amboasary, Ambovombe and Ampanihy). Moreover, seed stocks were severely depleted, with an estimated 70 percent of households in the Androy and Anosy regions reported having no seeds and other inputs critical to reviving agricultural production. Six of 10 districts surveyed were classified as in Nutrition Emergency: the situation has been particularly critical in



Ampanihy and Ambovombe districts, where 27 percent of children were reported to be acutely malnourished. Households in many areas ran out of food reserves much earlier than usual and have resorted to desperate feeding practices, such as eating clay mixed with tamarind, termites and grasshoppers. Many households have also been forced to sell assets, accumulate debt, or been forced to migrate elsewhere in search of food. Floods in Central and Northern regions following cyclones have also led to severe disruptions to public services and economic activity, including food production. Major floods have occurred around the capital city during the tropical cyclone Ana at the end of January 2022 while the category 4 cyclone Batsirai hitting the central section of the country in early February 2022 damaged important infrastructure, destroyed thousands of homes, and closed schools and health centers. Affected populations up to mid-February were at their highest level since the devastating cyclone Enawo in 2017.

## Uneven Progress Towards Macroeconomic, Social, and Environmental Sustainability

22. **While macroeconomic stability has been maintained, fragility risks have increased, and environmental sustainability has worsened.** Past efforts to limit public deficits and indebtedness, to reinforce the operational framework of the central bank and to ensure sufficient capital buffers in the financial sector created space for counter-cyclical policy responses during the crisis, which helped limit the immediate impact of the crisis without jeopardizing macroeconomic stability. The economic and social impacts of the crisis have nevertheless intensified fragility risks, particularly in areas where the State's presence is patchy, while also putting additional pressure on natural resource management.

23. **Public debt has remained sustainable during the crisis, but risks have increased.** The central government deficit averaged 1.5 percent of GDP over the period 2016-19 and overall public and publicly guaranteed debt levels had dropped to 38.5 percent of GDP by 2019,<sup>14</sup> which is significantly lower than the regional average of 51 percent. Low deficits reflected the government's efforts to maintain fiscal discipline, but also resulted from chronically low execution of public spending, especially in infrastructure and social sectors. The COVID-19 crisis has led to a significant widening of fiscal deficits, mostly reflecting the sudden drop in revenues, which pushed public debt to 49 percent of GDP in 2020, its highest level since 2005, but still below regional averages (Figure 25). While a debt sustainability assessment in November 2021 concluded that Madagascar still had some fiscal room to accommodate additional shocks, this conclusion remains conditioned on significant efforts to boost domestic revenue mobilization and improve the management of public debt after the crisis eases. Experience from other low-income countries suggests that debt sustainability risks can rapidly escalate once debt dynamics start deteriorating. In fact, one third of the countries that experienced an increase in debt distress risks from low to moderate saw a further deterioration of high distress risks within three years. Among the fiscal risks that require particular attention in Madagascar is the quality of public investment management and the use of public private partnership (PPPs) to fill large infrastructure gaps, institutional capacity to manage contingent liabilities, growing financial pressures facing the SOEs such as the public utility company JIRAMA and the national airline company (Air Madagascar), plans to rely increasingly on non-concessional financing and the creation of a sovereign wealth fund in 2021 without a clear mandate, governance structure or sustainable financing solutions.

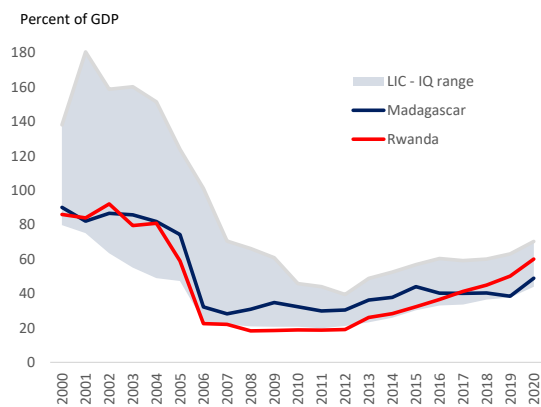
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<sup>14</sup> Public and publicly guaranteed (PPG) debt comprises external and domestic debt including all external liabilities held by the central bank; all borrowing from the IMF; non-guaranteed domestic debts owed by state-owned enterprises (SOEs) in cases where the government has at least 50 percent of the shares, domestic arrears, and direct guarantees provided by the central government.



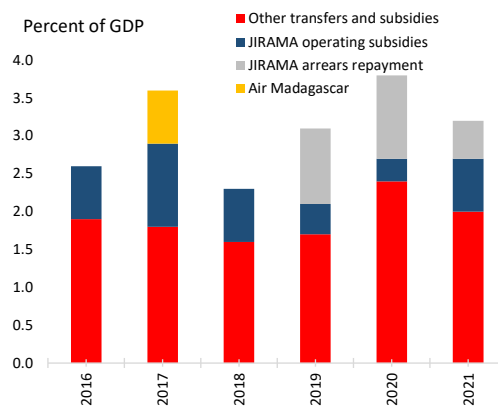
24. **Exchange rate and price stability have been maintained during the crisis.** A sharp drop in export revenues contributed to a significant deterioration of the current account deficit, reaching an estimated 5.4 percent of GDP in 2020. However, rising external financing needs were essentially covered by emergency support operations from international partners, which helped limit currency pressures and maintain foreign reserves at comfortable levels. Despite food supply disruptions and a rebound in energy prices during 2021, the credible commitment of the central bank to price stability and an improved operational framework contributed to anchoring inflation and exchange rate expectations during the crisis. Banks generally remain well capitalized.

Figure 25: General government debt



Source: Ministry of Economy and Finance, World Bank

Figure 26: Transfers and subsidies



Source: Ministry of Economy and Finance, World Bank

25. **Fragility risks have risen amid growing economic hardship in lagging regions.** While the incidence of conflict and violence has remained broadly stable at the national level, there have been hot spots of localized violence, particularly in the South and in some urban centers in recent years (Box 2). Southern regions, which have a spotty state presence, have experienced the highest frequency of fatalities as a result of violence, primarily around *dahalo* activities related to cattle rustling. Growing fragility risks in South are prompting the migration of populations towards the north, and into already-strained urban centers. In 2020 and 2021, the situation has been exacerbated by the pandemic-induced crisis and three consecutive years of extreme droughts. The combination of these adverse shocks risks widening existing societal inequalities.

**Box 2: Drivers of Fragility and Sources of Resilience in Madagascar<sup>15</sup>**

Madagascar faces challenges related to deep-rooted institutional fragility that hamper the country’s development prospects. It is a country in which untapped natural resources and successful export-oriented sectors coexist with pervasive poverty, poor human development outcomes, derelict infrastructure, and a labor force mostly involved in informal low-productive activities and self-subsistence agriculture. Cyclical political instability since independence in 1960 has contributed to deep economic downturns and slow recoveries. This has meant that income per capita has been declining over time and has contributed to large disparities of income and wealth. The first peaceful and democratic transfer of power occurred only in 2019. Violence and insecurity have been rising, especially in the lagging South, which is confronted by multiple sources of risks and is exposed to natural

<sup>15</sup> Based on the forthcoming Risk and Resilience Assessment for Madagascar and Mozambique.



hazards and climate-related shocks. The ongoing Covid-19 pandemic has exacerbated vulnerabilities in the presence of pre-existing fragility and has highlighted the weakness of institutions.

Fragility is driven by four key factors. First, the lack of broad-based inclusion in access to power and resources has marginalized large parts of the population. Historical and geographical factors have resulted in the emergence and persistence of institutions that are elite-oriented and centralized. In particular, Madagascar's formal (state) institutions are clientelist, with resource allocation and conflict resolution determined by agreements between leaders ("elite bargains") rather than through the enforcement of laws and regulations. Political power has remained concentrated in the executive and centralized in the capital. The weakness of oversight and transparency mechanisms has also highlighted the challenge of corruption, with implications for public trust, human development, and social cohesion.

Second, spatial inequalities are exacerbated through patchy service delivery, amidst unequal access and the uneven presence of the state, lack of transparency in delivery of services, and perceptions of corruption. These imbalances are perpetuated by policy decisions, including public expenditure and investment, and has the effect of weakening state-society relations. These factors have been particularly prominent in the poorer Southern regions.

Third, challenges related to transparent and inclusive access to natural resources and extractives, including land, forests, water bodies, and minerals are a major source of contestation, despite the importance of these resources is a source of livelihood for much of the population. Access and ownership rights and permits, even when they exist, are poorly enforced and highly contested. In practice, the rents of the extraction of these resources tend to be captured by a few politically connected actors who benefit from preferential market access and limited contestability.

Fourth, there are few mechanisms to protect the most vulnerable from the impacts of shocks, with social assistance and social insurance schemes being relatively underdeveloped. Basic services, such as education, health and infrastructure, are also delivered unevenly across the country and often in ways that reinforce rather than reduce inequalities.

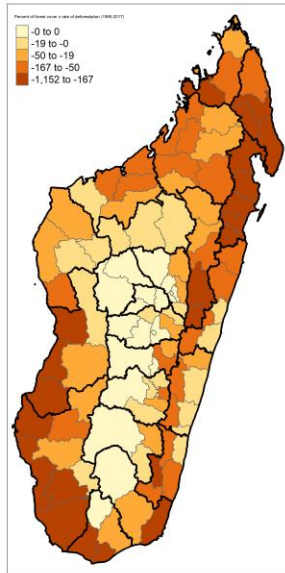
Nevertheless, Madagascar has a few sources of resilience to draw on and that can act as potential entry points for policy. These include the role of traditional and religious leaders as mediators and in terms of providing safety nets for the population; the role of custom and societal norms, including local laws (*dina*) in maintaining stability; a strong tradition of informal dispute resolution; the role of communities in reinforcing a sense of cohesion and belonging; and the role of CSOs and NGOs in providing basic services to the population and helping to bridge the gaps left by the state.

26. **Little progress had been made towards environmental sustainability.** Most of Madagascar's population remains dependent on natural resources for their livelihoods. For instance, 80 percent of the population depends on agriculture as their primary source of income. In this context, the country remains highly vulnerable to the over-exploitation of natural resources (renewable and non-renewable), more frequent climate shocks and other natural disasters. Depletion of natural resources has resulted from the unregulated expansion of extractive industries, illegal trafficking of natural resources, and open access to common resources, such as forests and fisheries. Population growth has increased demand for agricultural land both for subsistence production and for cash crops and has consequently increased the pressure on forests (Figure 27). Poor soil management in areas outside of forests reinforces the incentives for land clearing in forest areas where the soil is more fertile. Madagascar's location, topography and socioeconomic conditions make it particularly vulnerable to climate change and extreme weather events, with cyclones, flooding, and drought posing the greatest risks in different parts of the country (Figure 28). The pandemic has placed additional pressure on natural resources by reducing the available public funding



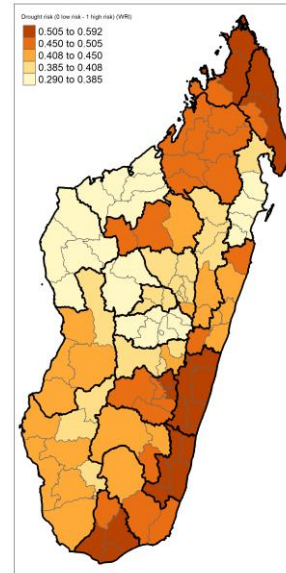
to manage protected areas at the same time that the economic downturn has enhanced the incentives for poaching, deforestation and other illegal activities. It has been estimated that in 2020 there was a 26 percent increase in poaching traps, an eight percent increase in illegal harvesting of precious woods, and a near-doubling of the total area deforested within Madagascar National Parks sites.

Figure 27: Rate of deforestation, 1990-2017



Source: Vieilledent et al. (2018)

Figure 28: Drought risk, 2004-14



Source: Carrao et al. (2016)



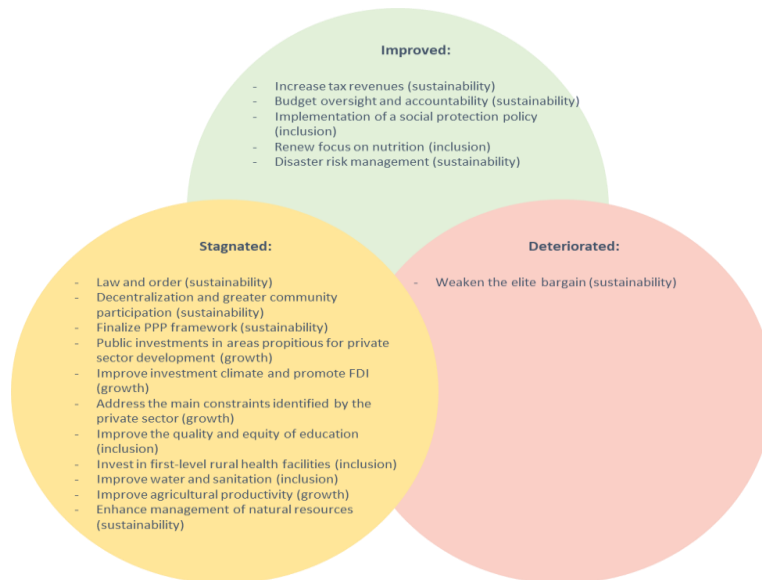
## Chapter 2: Constraints to Inclusive and Sustainable Growth

27. This Chapter takes stock of progress towards the policy objectives specified in the FY16 SCD and identifies binding constraints that prevented faster, more inclusive and sustainable growth in recent years. In doing so, it assesses the reasons for progress or lack thereof, and relates the pace and pattern of progress towards these objectives to four major constraints to broad-based development. The 17 policy objectives of the FY16 SCD covered areas ranging from the private investment climate, service delivery in rural areas, budget oversight and state capture that have shaped policy choices and implementation. These are still highly relevant, although the focus and prioritization of specific reforms will need to be adapted to changing circumstances, as discussed in Chapter 3.

### 2.1 Progress Towards the Policy Objectives of the FY16 SCD

28. Overall, progress towards policy objectives identified in the FY16 SCD has been mixed. Only modest improvements were recorded on five out of the 17 policy objectives with stagnation or reversals in the remaining 12 (Figure 29 with Annex 2 providing a more detailed discussion).<sup>16</sup> The objectives where there was progress included: domestic revenue mobilization (prior to the onset of the COVID-19 crisis), budget oversight, social safety net programs, interventions in nutrition and disaster risk management. For 11 other objectives, there has been limited progress since 2016, including for public investment management, decentralization, the private investment climate, health, education, water and sanitation, natural resource management and energy sector reforms. Finally, for the most critical objective—the reduction of state capture – there have been setbacks since 2016.

Figure 29: Progress on the Policy Objectives of the 2016 SCD



<sup>16</sup> The impacts of COVID-19 since March 2020 complicate the evaluation of progress towards the FY16 SCD policy objectives. To take account of this, progress towards some objectives such as domestic resource mobilization is evaluated while taking account of the effects of the pandemic on the economy.



29. **The common thread among policy objectives where progress was observed since FY16 is the positive role of institutional and regulatory reforms that allowed more sustained improvements.** For instance, increases in domestic revenue mobilization amounting to about 0.4 percent of GDP annually between 2016 and 2019 have been underpinned by improvements in tax and customs administration and the dematerialization and digitalization of some tax procedures, which contributed to increase the number of active taxpayers to almost 500,000 from 200,000 in 2016. Some progress was achieved in budget transparency through the publication of budget execution reports and citizens' budgets and debt transparency through the publication of the financial statements and the liabilities of selected SOEs. Similarly, the social safety net has been strengthened through a number of policy and institutional reforms that have scaled up and enhanced the effectiveness of the two main programs -- the Human Development Cash Transfer Program, which provides income support to the poorest households and the Productive Safety Net Program, which supports poor communities in areas that face environmental degradation or have agricultural potential through cash for work activities.

30. **Where little or no progress have been made, either critical policy reforms were not implemented or not complemented with the needed institutional changes.** An example of the former is state capture, which actually worsened since 2016 amid half-hearted measures and poor implementation. For instance, the institutions charged with implementing anti-corruption laws and regulations remain weak, including the Anti-Corruption Poles (PACs) which lack resources and were hobbled by recent legislative amendments that resulted in narrower mandates. In this context, the incidence of corruption remains widespread.<sup>17</sup> On trafficking of precious woods, which is an important locus of corruption, the mandate for prosecution of crimes is unclear and consequently no convictions have yet materialized. Similarly, the legislative measures adopted in 2019-20 to promote public sector transparency and accountability were subsequently watered down during the crisis with more restricted public consultations and access to information, including through more onerous libel laws. Efforts to strengthen the justice system have also seen limited progress because of lack of institutional support and independence, with judges, for instance, having to seek authorization from the executive before initiating legal proceedings.

31. **The level and coordination of development aid to address these challenges improved over time, but the overall scope of interventions remained limited.** Since 2012, net official development aid increased significantly to reach nearly 50 percent of public spending in 2019, and 25 percent of total gross fixed capital formation. However, it remains significantly lower than aspirational peers and regional averages when measured in per capita terms. The largest multilateral donors are the World Bank, the IMF, AfDB, the EU, and the UN, while the largest bilateral donors are the United States, France, Germany, and Japan. Most of them are focused on a number of sectors, but coordination has improved in recent years, particularly since the Donors and Investors Conference in 2016. The World Bank's decision to significantly increase its IDA allocation for Madagascar since 2013 generated additional leverage and incentives to scale up development assistance programs, which has facilitated its role in coordinating and creating synergies with development partners around key priorities such as decentralization and social service delivery. However, increased donors' engagement and coordination have only led to modest improvements across most policy areas, reflecting still low levels of aid per capita, and the inability of donor programs to accelerate governance reforms and leverage of private sector financing.

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<sup>17</sup> Chalendar et al. 2021





## 2.2 Constraints to Broad-Based Development Since the FY16 SCD

32. This picture of limited progress in implementing policies that can spur more rapid, inclusive and sustainable growth in Madagascar means that the binding constraints to achieving these goals remain similar today as they did in 2016. However, the pandemic and the increased frequency and severity of climate-related shocks have made it more urgent to address these constraints and prioritize interventions to accelerate the recovery and ensure sustained gains in living standards and poverty reduction in the years ahead.

33. This section discusses four sets of interlinked constraints that have had a particularly detrimental effect on Madagascar’s development since the FY16 SCD. Weak governance and state capture remain the overarching constraint to more rapid, inclusive and sustainable growth in Madagascar, which in turn amplifies the impact of three other constraints that have increased in recent years: (i) insufficient investment in physical, human and natural capital; (ii) low productivity amid stalled structural transformation; and (iii) vulnerability to increasingly frequent climate and other shocks. The mapping of the FY16 SCD objectives with these four constraints are presented in Table 1. This discussion lays the foundation for the identification of pathways and policy prioritization presented in Chapter 3.

**Table 1: Mapping of Identified Constraints to FY16 SCD Policy Objectives**

FY16 SCD Policy Objective/Constraint	Weak Governance	Limited Capital accumulation	Lack of Structural transformation	High Exposure to shocks
Increase public investment	✓	✓	✓	✓
Improve private investment climate	✓	✓	✓	
Address private sector constraints	✓	✓	✓	
Raise agricultural productivity		✓	✓	✓
Improve nutrition		✓		✓
Enhance social protection		✓		✓
Improve education		✓	✓	✓
Upgrade rural health		✓		✓
Improve water and sanitation		✓		✓
Increase tax revenues	✓	✓	✓	✓
Enhance budget oversight and accountability	✓	✓	✓	✓
Improve disaster risk management			✓	✓
Upgrade law and order	✓		✓	
Promote effective decentralization	✓		✓	
Implement a Public Private Partnership framework		✓	✓	✓
Enhance natural resource management	✓		✓	✓
Weaken elite bargain	✓	✓	✓	✓



### 2.2.1 Weak Governance and State Capture

34. **Weak governance is the overarching constraint to broad-based development in Madagascar.** This constraint was also highlighted in the FY16 SCD and several of the policy objectives it identified aimed at addressing governance weaknesses have made limited or no progress. These policy areas included (among others): weakening elite bargain; enhancing budget oversight and accountability; upgrading law and order; enhancing natural resource management; and promoting effective decentralization.

35. **While the proximate reason for the failure to raise living standards over an extended period has been the inability to accumulate productive capital, accelerate structural transformation and increase resilience to shocks, a deeper reason lies in governance failures.** State capture and, in particular, the exclusion of key groups from the policy process and the concentration of power is a key factor underlying weak governance and helps explain why reforms of policies and institutions have failed to deliver sustained development results in a variety of areas. Madagascar's political system and economy are dominated by a small group of decision makers whose networks are difficult to break into. These elites benefit from policies that assure them privileged access to resources and rents. The structure of the state, including the high degree of centralization, the absence of strong accountability mechanisms, and weak institutional capacity, is such that even where there has been political will, the implementation of legislative and regulatory reforms in such areas as promoting private sector development and expanding public infrastructure has been slow. Political interference in public administration and the judiciary is rife, influencing appointments and decision-making.<sup>18</sup> Finally, the effectiveness of state action has been muted by the lack of transparency and accountability despite efforts from audit institutions like the Court of Accounts. Civil society remains poorly represented in policy debates, in part due to policies that limit civic participation. The civil society organizations that do exist are concentrated in the capital and not well connected to the bulk of the population. Media freedom and independence have come under increasing pressure, reducing its ability to contribute to public sector accountability.<sup>19</sup>

36. **The control of corruption and the rule of law have deteriorated.** The legal and institutional framework to reduce the incidence of corruption remains weak despite past reform efforts. Major constraints include weak enforcement and application of existing laws; insufficient financial and human resources for anti-corruption agencies, lack of effective focus on high vulnerability areas such as public sector recruitment, public procurement, and illicit asset recovery; and lastly, insufficient incentives for collaboration and collective action between institutions due to limited trust and a lack of information sharing. This deterioration is visible in a number of governance indicators over the last decade. The Rule of Law indicator of the World Justice Project (WJP) put Madagascar in the 105<sup>th</sup> position among 128 countries globally, and 21<sup>st</sup> position out of 28 countries in Sub-Saharan Africa. Among the sub-components of this measure, Madagascar's weaknesses are particularly visible in the incidence of corruption, where the country performance is worse than some aspirational peers like Rwanda, Tanzania, and Bangladesh, but presents similar scores as Cambodia and Uganda, where corruption challenges are also acute (Figure 30). The quality of the criminal justice system and of regulatory enforcement are low as well according to WJP. This picture is confirmed by the 2020 Bertelsmann Transformation Index (BTI), which concludes that the country continues to be characterized by a high incidence of corruption, state monopolies, and access to markets limited to certain groups in society. The Worldwide Governance Indicators also shows a stark decline in the control of corruption, alongside a deterioration in the rule of law and regulatory quality (Figure 31). These trends are reflected in the World Bank's Country Policy and Institutional Assessment

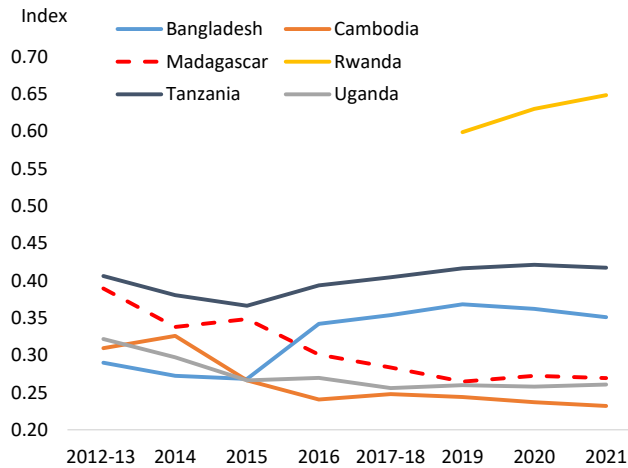
<sup>18</sup> Global Integrity, 2021.

<sup>19</sup> Global Integrity, 2021



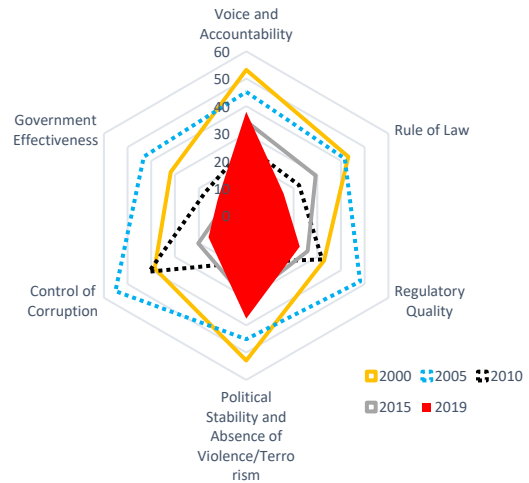
(CPIA), where the weakest scores are registered for public sector management and institutions and in particular for transparency, accountability and the control of corruption which deteriorated further in the latest iteration (Figure 32).

**Figure 30: Control of corruption**



Source: World Justice Project, World Bank

**Figure 31: governance**



Source: Worldwide Governance Indicators, World Bank  
 Note: WGIs are a research dataset based on the views of experts that are not affiliated with the World Bank. Its results do not represent the views of the Bank or its Board and are only used for analytical purposes.

**Figure 32: CPIA score – public sector management and institutions**

	Madagascar	Average IDA Borrowers
CPIA Cluster D : Public Sector Management and Institutions		
12. Property Rights and Rule-based Governance	2.5	2.9
13. Quality of Budgetary and Financial Management	2.5	3.0
14. Efficiency of Revenue Mobilization	3.5	3.3
15. Quality of Public Administration	2.5	2.8
16. Transparency, Accountability and Corruption	2.5	2.9
Average 1/	<b>2.7</b>	<b>3.0</b>
Overall CPIA 2/	<b>3.3</b>	<b>3.2</b>

Source: World Bank

**37. The perception of high and worsening corruption contributes to lack of trust in government.** Recent surveys show that the majority of citizens think that the incidence of corruption is pervasive and has risen over time. In 2018, the Afrobarometer survey reported that three quarters of those questioned thought that corruption had increased, with the police being the most corrupt. A survey by Transparency International in 2019 found that 76 percent of the people thought corruption increased in the previous 12 months, and that more than a quarter of those surveyed who had used public services had paid a bribe in the previous year. Surveys also find that corruption is widespread across government, including the



police, taxation, customs, land administration, trade, mining, industry, environment, education, and health care (Economic Freedom Index 2021). Consequently, trust in government, especially at its higher levels, is low. According to the Afrobarometer survey in 2018, only about half of those polled expressed any trust in the National Assembly with over a third indicating no trust. There was low trust also in the judiciary and the Presidency, although local governments were seen as more trustworthy.

**38. Public financial management systems continue to lack effectiveness, credibility and transparency.** The lack of transparency and traceability of budget allocations weaken the social contract between the state and the population, while the poor prioritization and execution of public spending and low revenue mobilization contributed to weak infrastructure and social service delivery. This situation reflects several converging factors, including: (i) the lack of a credible medium-term expenditure framework, clear development strategy and corresponding budget prioritization; (ii) shortcomings in revenue collection and budget execution, (iii) the weak participation of institutions and stakeholders in the budget process (Parliament, control and audit institutions, civil society); (iv) difficulties in accessing reliable and good quality budget data; and (v) the lack of financial and strategic supervision of key SOEs leading to the mobilization of large fiscal resources to cover for their underperformance.

**39. The pandemic has amplified several governance challenges.** The imposition of a state of emergency due to the pandemic has added to the centralization of power within the executive branch. And existing weaknesses in state institutions, particularly those associated with public financial management, have been exacerbated by the additional challenges of tracking resources deployed during the crisis while ensuring that these are spent efficiently and effectively. A manifestation of these pressures and the inability of existing systems to deal with them is seen in the higher incidence of questionable practices in the management and delivery of emergency funds, and in decisions to adopt direct contracting for COVID-19 related supplies, contravening public procurement guidelines.

**40. This persistence of these governance challenges aligns with the limited progress towards several key policy objectives of the FY16 SCD.** Reduced public access and participation in the policy process during the pandemic has worsened public accountability and increased the risk of state capture, which was already on the rise since FY16 SCD. The perception of corruption, the rule of law and regulatory quality have also deteriorated, reflecting the inability or unwillingness to follow through on key reforms and ensure that agencies responsible for enforcing the relevant laws are independent and adequately funded (Box 3).

**Box 3: Evolution of Governance Reforms Since the FY16 SCD**

The FY16 SCD highlighted five policy objectives aimed at improving governance: weakening elite bargain; improving budget oversight; upgrading law and order; promoting effective decentralization; and enhancing natural resource management. While there was progress towards some of these objectives, most saw little to no improvement.

**Upgrading law and order remained a major challenge.** A number of steps have been taken to improve the legal system and reduce corruption. Digitization of judicial processes has helped reduce processing time and speeded up decisions, particularly on commercial law. The anti-corruption law was updated in 2016 along with the ordinance on the recovery of illicit assets and the law on anti-money laundering. Anticorruption Poles (PAC) were set up in 2018 to complement the existing anticorruption institutions and in 2020, a national anti-corruption strategy was adopted. Nevertheless, anticorruption institutions are hindered by their lack of resources. Amendments to the anticorruption law by Parliament in 2020 narrowed the mandate and independence of the PACs. Moreover, the current system of asset declarations is of limited assistance to anti-corruption efforts as



there is no publication requirement and there are no dissuasive sanctions for the absence of declaration or false declarations. The judiciary remains subject to extensive political interference, particularly from the executive.

**Efforts to weaken elite bargain have been undermined by a lack of accountability.** While media and CSOs report on issues pertaining to political interference, corruption and trafficking, the government rarely responds or launches investigations. The freedom of the press is guaranteed by the constitution but remains undermined by criminal libel laws and journalists and activists involved in the investigation of sensitive subjects such as cattle rustling and illicit sales of natural resources, face safety risks. In 2021, an attempt by the Government to restrict public access to public documents through a provision inserted in the communication code was rejected by the High Constitutional Court. Finally, the bill on access to information which draft was prepared and presented to the National Assembly in 2020 was not even discussed during the two 2021 parliamentary sessions

**There has been some progress on improving budget transparency and oversight.** Specifically, budget transparency has improved with the adoption of measures that mandated the inclusion of additional information in budget documents and the online publication of budgetary data. These reforms were driven by a combination of advocacy by donors and the support of reformers within the government and in civil society. Since 2017, citizen budget reports providing simplified information on Finance Laws and budget execution are produced and disseminated in three languages, including in Malagasy. However, budget execution reports are produced and published with important delays.

**Progress towards effective decentralization has been mixed.** Regulations were issued in 2017 and 2018 to enhance fiscal decentralization by publishing data on transfers to communes, adopting formula-based transfer systems, and reducing disparities in transfers across localities. More recently, efforts were made to clear arrears of the central government and to implement participatory budgeting to promote community participation in local service delivery. Nevertheless, effective decentralization has remained elusive with less than two percent of the total budget managed at decentralized levels.

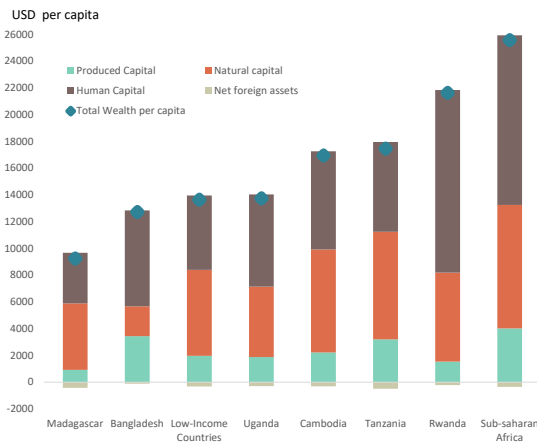
**Efforts to enhance natural resource management have been largely ineffective.** Although there have been more prosecutions of those involved in trafficking, no convictions have yet resulted due to lack of clarity on judicial mandates. Budget cuts due to the COVID-19 pandemic have also limited the ability of the Ministry of Environment to enforce the relevant laws while the resulting fall in tourist traffic has reduced the revenues available to enforce restrictions on protected areas.

## 2.2.2 Insufficient Investment in Physical, Human and Natural Capital

41. **The inability to accumulate productive capital and prevent the depletion of natural resources are increasingly constraining development prospects.** These limitations are evident in such measures as: low and declining investment rates; deteriorating education outcomes; high levels of malnutrition and stunting; high maternal mortality; and the pace of depletion of renewable and non-renewable natural capital. Each of these outcomes limits the prospects for broad-based development. These links work both through their impacts on potential growth as well as for how inclusive that growth is likely to be. Higher investment, whether in physical capital, the quantity and quality of human capital or the use and replenishment of natural capital are key drivers of development, particularly among low-income countries. So far, Madagascar has been unable to convert its rich natural resources -- unparalleled biodiversity, a pristine coastline, fertile land, and precious minerals and metals -- into human and physical capital accumulation that could underpin growth and poverty reduction. In fact, while natural capital per person in Madagascar is comparable to the average of other low-income countries, its per capita human and produced capital stocks are respectively 30 percent and 40 percent lower (Figure 33).

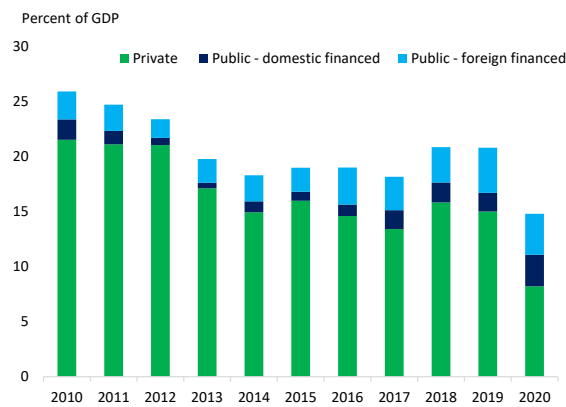


Figure 33: Wealth per capita and sub-components



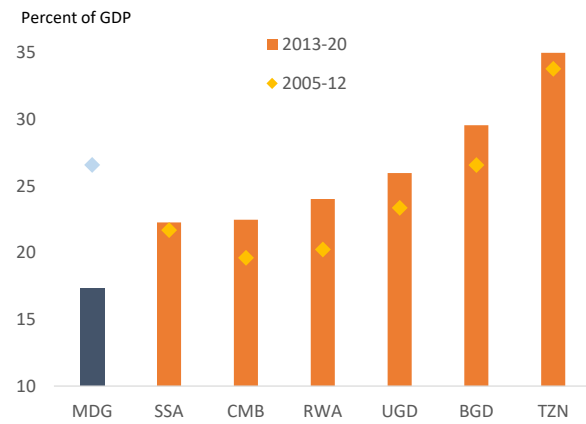
Source: The Changing Wealth of Nations (2018)

Figure 35: Public and private investment



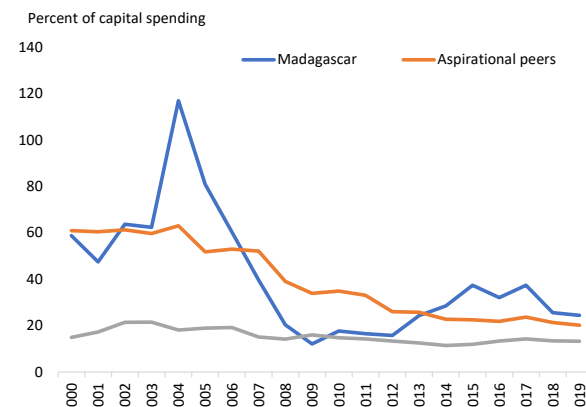
Source: The Changing Wealth of Nations (2018)

Figure 34: Investment to GDP ratio



Source: IMF, World Bank

Figure 36: Official development aid as a share of gross fixed capital formation



Source: OECD, World Bank

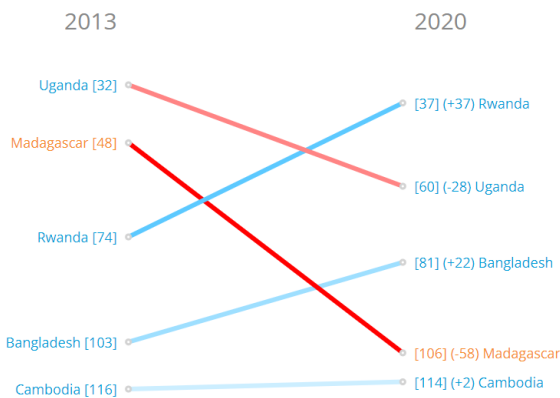
42. **Low levels of investment have stifled growth.** Investment represented on average 19.4 percent of GDP over the period 2013-19, lower than its peers and trending down after being temporarily boosted by large mining investments during the late 2000s (Figure 34). Private investment was particularly weak recently, dropping to an average of 15 percent of GDP in 2013-19, and further to 8.2 percent during the 2020 recession (Figure 35). This was also reflected in foreign direct investments falling from an average of 8.7 percent of GDP in 2006 to 2012, to 3.8 percent in 2013-19 and 2.6 percent in 2020. Low investment rates in the private sector reflect an unfavorable and unpredictable business environment, deteriorating connectivity infrastructure, and constrained access to finance, energy, land, skills and markets. Despite apparent interest from foreign investors in key sectors such as agribusiness, garments, tourism or mining, these same constraints have deterred these investors from materializing their projects in recent years. Public investment has gradually increased in recent years, rebounding from a historical low of 2.3 percent of GDP in 2012 to 6.8 percent in 2020, which is at its highest level since 2008. It remains predominantly foreign-financed (60 percent in 2020) and tightly linked to donor support. In this context, the ratio of net official development aid to total gross fixed capital formation increased to reach about 25 to 40 percent



in the period leading up to the pandemic, which is above both aspirational peers and Sub-Saharan African averages (Figure 36).

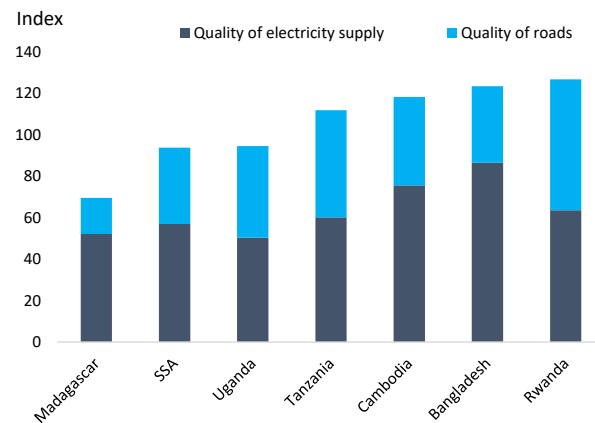
43. **Decades of under-investment and poor management have led to deteriorating infrastructure.** This underinvestment severely impairs the country’s ability to generate economic opportunities, particularly in rural areas. A lack of investment, poor prioritization of projects, and the impact of frequent natural disasters have resulted in infrastructure quality in Madagascar being ranked 106 out of 131 countries in the 2020 Global Innovation Index, falling 58 places from 2013 (Figure 37). In particular, the quality of both road and electricity infrastructure lags significantly behind aspirational peers (Figure 38). While challenging topography plays a part, with much of the population living in isolation along thin coastlines and on rugged high plateaus, insufficient and poorly managed public investment, underperforming SOEs and the inability to mobilize large scale PPPs all play a part. The lack of a well-integrated and functional transport network raises the price of essential goods, depresses domestic demand in secondary cities, and limits opportunities for farmers in remote areas to sell perishable agricultural produce and participate in commercial activities. Poorly maintained transport infrastructures also mean that they are highly vulnerable to extreme weather events, contributing to severe disruptions after cyclones and floods, as recently experienced. Limited access to ports prevents Madagascar from more effectively participating in global and regional value chains while unreliable and expensive air travel is a significant constraint to the development of the tourism sector. Access to electricity improved in several regions, but almost all of the gains were driven by private off-grid solar projects, with the private sector now accounting for more than half of household electricity connections. In contrast, grid-based electricity access, which is mostly managed by the public utilities company JIRAMA, has stagnated at around 15 percent over the last decade (compared with 47 percent for Sub-Saharan Africa), and in some years even declined as new connections failed to keep up with population growth. Madagascar’s energy mix also remains stubbornly dependent on costly thermal power, which affects carbon intensity but also contributes to JIRAMA’s operational and financial sustainability challenges.

Figure 37: Infrastructure quality ranking



Source: Global Innovation Index (2021)

Figure 38: Quality of roads and electricity infrastructure



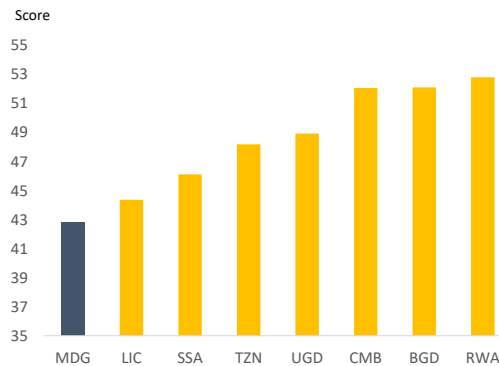
Source: World Economic Forum (2019)

44. **Low investment rates reflect institutional and governance challenges.** The challenging business environment in Madagascar is an important reason why private investment rates have been significantly lower than its peers. Dealing with construction permits, getting electricity, registering property and



trading across borders are all expensive and time consuming. Barriers to competition also impede investment, particularly in sectors where powerful and well-connected incumbent companies are able to influence policy and reduce market contestability such as in telecommunications, petroleum, banking, mining, real estate, and high-end agribusinesses where there is a high degree of concentration and where firms often develop vertically integrated or conglomerate structures that can further entrench market power. The World Economic Forum's Global Competitiveness Index in 2019 ranked Madagascar 132 out of 141, with the weaknesses mainly in the quality of institutions and infrastructure (Figure 39). Access to finance is also a key impediment to private sector development, as it remains stifled by a high number of non-banked MSMEs and households, low competition in the financial sector, underdeveloped capital markets and the absence of institutional investors for long term financing. Nevertheless, improved credit infrastructure and the digitalization of financial services have helped support increased financial inclusion in recent years. Although public investment rose from three to almost six percent of GDP between 2015 and 2020, it has continued to fall short of the level targeted by the authorities with both domestic and externally financed investments facing severe planning and execution challenges.

Figure 39: Global Competitiveness Index score



Source: Global Competitiveness Index (2020)

45. **Low human capital stifles both economic and human development.** Human capital—the knowledge, skills, and health that people accumulate over their lives—is a key contributor to long-term growth and poverty reduction. More human capital is associated with higher productivity and earnings for people, higher income for countries, and stronger cohesion. Better health and changing demographic structure also generate opportunities for savings, capital accumulation and increased returns to and investment in education. Education also builds human capital through indirect channels – for example, parents with more education typically have fewer children, and invest more in their children’s health, nutrition and education.

46. **In Madagascar, the quality of human capital is among the lowest in the world, with especially worrying trends in learning outcomes.** The 2020 Human Capital Index (HCI) indicates that a child born today in Madagascar will be only 39 percent as productive as an adult than if he or she enjoyed complete education and full health (Figure 40).<sup>20</sup> By this measure, Madagascar is in the lowest quarter of all countries, with weaknesses extending across most subcomponents. Although the under-5 child mortality rate and the prevalence of stunting have both improved since 2010, these remain among the highest in the world. Similarly, although the adult survival rate has improved, it is still among the lowest quarter of

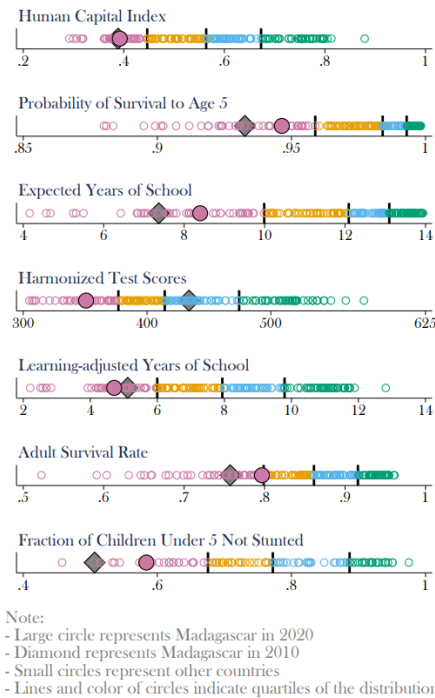
<sup>20</sup> [https://databank.worldbank.org/data/download/hci/HCI\\_2pager\\_MDG.pdf](https://databank.worldbank.org/data/download/hci/HCI_2pager_MDG.pdf)





all countries. The picture for education is concerning, with primary educational completion rates falling to 63 percent in 2019, down from 68 percent in 2013, and more than 95 percent of 10-year-old children not being able to read and understand a simple text. So, while a child starting school in Madagascar can expect to complete 8.4 years of school, this translates only into 4.7 years of schooling when the quality of learning is considered. Reflecting this decline in educational quality, harmonized test scores have fallen significantly in the past decade. The main reasons behind this deterioration in learning outcomes were: (i) the declining number of civil servant teachers after the 2009-12 constitutional crisis and the parallel increase in the number of less qualified community-hired teachers (representing today 80 percent of the total teaching force in primary schools), (ii) the absence of appropriate teacher training and teacher recruitment mechanisms, and (iii) the high cost of education for poor households contributing to high dropout rates.

Figure 40: Human Capital Index and its components

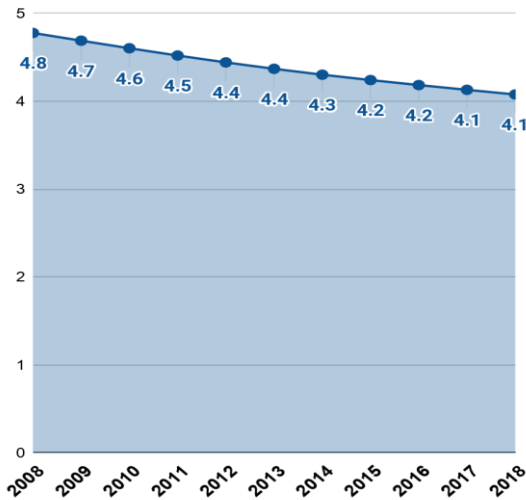


Source: World Bank

47. **Madagascar’s population growth and fertility rates remain elevated despite some recent declines.** The median age is 20 years old and people under 25 account for sixty percent of the population. A high level of young dependents puts severe strain on economic, social and environmental systems and limits households’ capacity to accumulate savings and investments. Although fertility rates have declined over time, it remains slightly over 4 births per woman and is much higher among women with lower levels of education (Figure 41 and Figure 42). In the absence of stronger labor demand from manufacturing and high-end services, the increase in the working-age population continues to be absorbed by low-productivity informal services and subsistence agriculture, with the latter contributing to accelerating the depletion of natural resources through reduced cropland quality and deforestation. High population growth also continues to put pressure on health and education systems, requiring a strong influx of skilled health workers and teachers, which are currently in short supply.

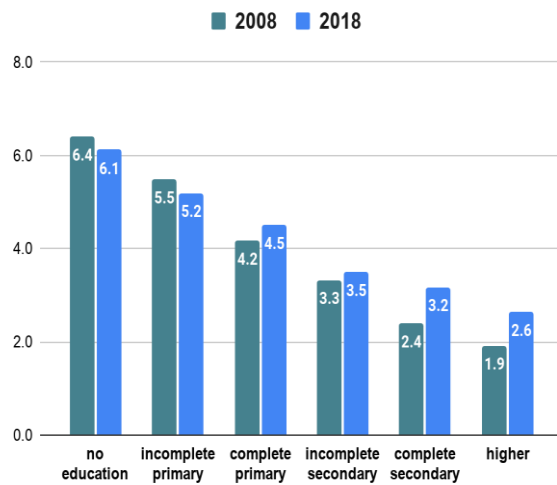


Figure 41: Total fertility rate (births per woman)



Source: World Development Indicators, World Bank

Figure 42: Total fertility rate by level of education attained



Source: MICS (2018), DHS (2008), World Bank

Note: Births for the three years preceding the survey for age group 15-49, expressed per woman

48. **Even before the pandemic, women’s access to health services and family planning remained a major constraint to development.** Women’s access to reproductive and maternal services is limited and translates into a high unmet need for contraception use. Maternal mortality remains high at 335 per 100,000 live births,<sup>21</sup> the share of births attended by skilled medical professionals was only 46 percent in 2018,<sup>22</sup> and access to prenatal care was strongly correlated with the place of residence, with urban women faring better compared to rural women (93 percent vs. 86 percent). Furthermore, adolescent fertility in Madagascar is above the average for Sub-Saharan Africa (108 births per 1,000 women aged 15-19, versus 101.1 in 2018). In 2016, 39 percent of women aged 15-19 had a child or were pregnant with large disparities across different groups of women. Evidence suggest that increasing girls’ education to secondary level and above not only improves economic well-being and health but also leads to a sharp reduction in fertility. At present, only 5 percent of women aged 25 and above have completed lower secondary education.

49. **The prevalence of intimate partner violence is high, and violence against women and girls is widely tolerated.** Gender norms and values that view women and girls as subordinate to men and boys are the underlying causes, reinforced by ineffective public policies to address them. 23 percent of women aged 15-49 currently or formerly in a union have experienced physical violence by their current or last husband/partner, with 11 percent reporting having encountered sexual intimate partner violence.<sup>23</sup> Intimate partner violence is widely accepted and tolerated in society: 40 percent of women and 28 percent of men of reproductive age report that beating one’s wife is justified under some circumstances. Despite being illegal, marriage with girls under 18 is among the most prevalent in the world, particularly in rural

<sup>21</sup> WDI (2017)  
<sup>22</sup> MICS (2018)  
<sup>23</sup> MICS (2018)



areas and in districts where the level of education is the lowest (Figure 43 and 44). Child marriage severely limits girls’ opportunities for education and economic empowerment.

Figure 43: Child marriage for girl children in urban and rural areas

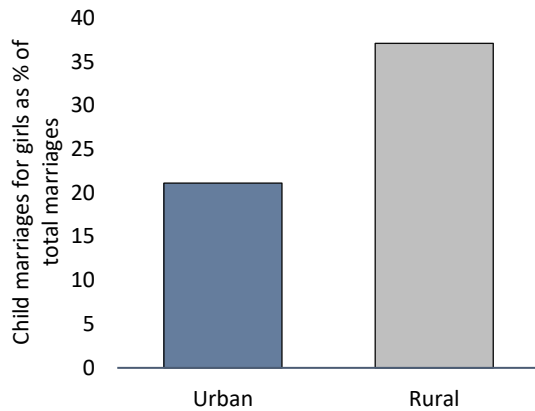
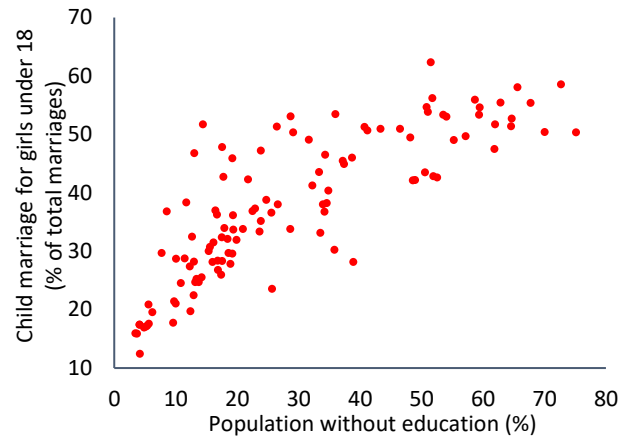


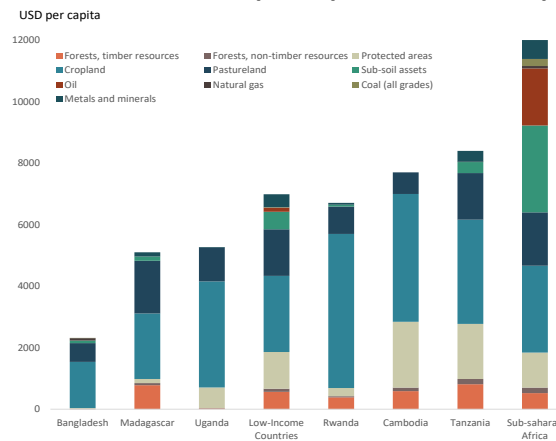
Figure 44: Child marriage for girl children and education across districts



Source: MICS (2018), World Bank.

50. **Lack of connectivity infrastructure is one of the reasons that many health indicators lag.** According to the Demographic and Health Survey, 42 percent of women interviewed reported that distance to health services is among the main issues that limits their access to health care. In rural areas, the distance to a health facility is a problem for 49 percent of women compared to 19 percent in cities. Reflecting these constraints, maternal mortality rates also remain high. Distance from a health center is also a major risk factor for early childhood mortality in Madagascar.<sup>24</sup>

Figure 45: Natural wealth per capita and sub-components



Source: The Changing Wealth of Nations (2018)

51. **Natural capital is being depleted at an accelerated pace.** Accounting for over half of Madagascar’s total capital stock, natural capital makes up by far the largest share of Madagascar’s capital

<sup>24</sup> Kashima *et al.*, 2012.



endowments.<sup>25</sup> Within this category, cropland and pastureland accounted for almost three quarters of the total with forests and protected areas making up much of the remainder (Figure 45). But each of these renewable natural resources is threatened by overexploitation and degradation with their per capita stocks having fallen by over a fifth between 1995 and 2014. Stocks of cropland and pastureland fell most sharply during this time with the expansion of subsistence and cash agriculture in response to rapid population growth. Encroachment into forests and protected areas is also placing increasing pressure on these resources. Minerals, including cobalt and nickel, are the most significant of Madagascar's non-renewable resources. There are concerns that rents from their extraction are being dissipated due to poor governance practices in the sector.

**52. Many of these constraints to capital accumulation have likely worsened during the COVID-19 crisis.** Private investment has fallen sharply in 2020 as businesses scaled back capital spending amid plummeting demand and only recovered mildly in 2021 as economic and policy uncertainty has persisted and access to finance has tightened. Public investment increased during the crisis, but project selection has become increasingly opaque while state-owned enterprises providing essential infrastructure services, such as the public utilities company JIRAMA, have seen their operational and financial troubles mount in the face of the economic downturn. The response to the pandemic has also meant a large scale and sustained shift to online learning, which has been particularly problematic for children in most parts of the country without reliable connectivity. Learning outcomes are therefore likely to have worsened further.

**53. Efforts to increase investment in physical and human capital have only had limited success since the FY16 SCD.** On the positive side, regulations governing digital finance have promoted the use of mobile money by businesses and households, and the increase in tax revenues before the pandemic allowed for an expansion of fiscal space to accommodate public investments. New policies aimed at reducing malnutrition have led to better outcomes on stunting at the national level. However, policy efforts to improve educational access and quality, the availability of rural health services and the management of natural resources have not borne much fruit. For instance, the ambitious Education Sector Plan, which emphasized the need for more investment in teacher training coupled with enhancing the quality of spending, was not backed by actions to improve teachers' performance as well as by higher budget allocations. Pandemic-induced school closings and transitions to virtual schooling have only worsened the situation, particularly among poorer households. Little progress was also made in increasing the quality of connectivity infrastructure due to the poor selectivity and execution of public investments, the limited capacity and fiscal space at decentralized levels of government, and increasing governance challenges at public entities delivering infrastructure services such as JIRAMA, Air Madagascar, Madarail and the Road Fund, among others.

### 2.2.3 Low Productivity Coupled with Stalled Structural Transformation

**54. The absence of significant structural transformation and its impact on productivity pose a third set of constraints to broad-based development.** Low productivity arises from a variety of factors but deteriorating supply-side conditions in the agricultural sector, the unrealized potential for industrial development and barriers to growth-inducing urbanization play a prominent role. While the manifestation of this lack of structural transformation is linked to policy failures, each of its component has self-

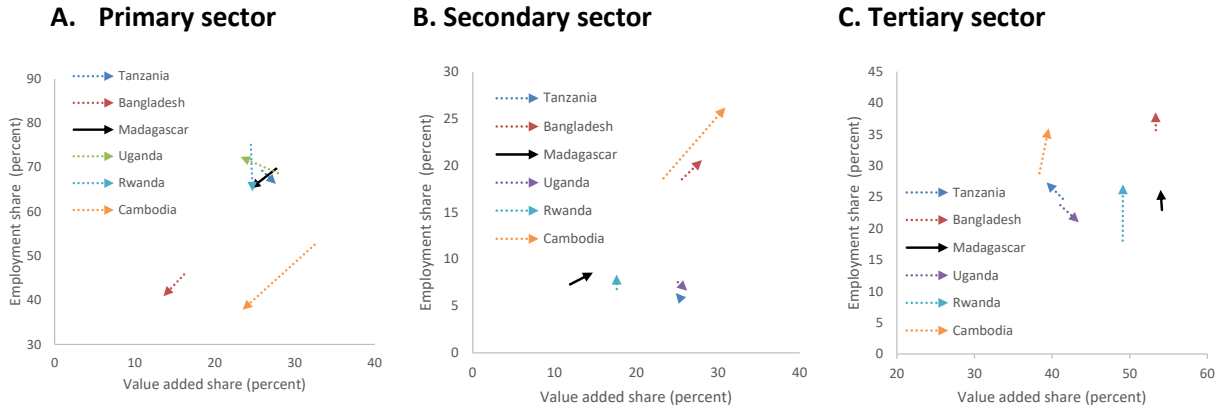
<sup>25</sup> World Bank, The Changing Wealth of Nations 2018.



reinforcing effects on the other. For instance, the absence of economic opportunities and growing pressure on infrastructure and public services in urban areas contribute to an overwhelming proportion of the population remaining in self-subsistence agriculture and limit incentives to adopt more commercial viable and productivity-enhancing techniques.<sup>26</sup> Moreover, the prevalence of informal activity in the most labor intensive sectors such as agriculture and commerce is itself a factor limiting the capacity of formal companies to compete and create more productive and better paying jobs,<sup>27</sup> which negatively impact aggregate productivity and investment rates.

55. **Supply-side factors constraining agricultural productivity have worsened over the last decade.** Poor transport access, particularly during the rainy season, is a major constraint and road quality indicators have been trending down since 2013. During the rainy season, many roads are not usable, further isolating rural communities and adversely impacting their livelihood. Limited access to electricity also impedes the use of water pumps as well as reliance on storage, milling and cold chain facilities that could help decrease post-harvest losses. Lack of access to finance and information about market conditions, including crop prices and demand conditions outside the immediate area of operation, also reduces farmers’ ability to make informed production decisions and negotiate competitive prices. While subsistence agriculture remains the overwhelming source of occupation in rural areas, some agribusiness, fisheries and horticulture niches have done well, although their success only benefited few areas and was not scaled up through substantial new investments. Overall, the primary sector has stagnated over the last decade, leading to a decline in both output and employment shares and encouraging urban migration (Error! Reference source not found.46.A).

Figure 46: Sector employment and output shares since 2010



Source: ILO, World Bank

56. **Job creation in industry and services has not been sufficient to drive structural transformation.** The process of structural transformation -- the movement of labor from low to higher productivity activities-- has made little progress since 2013. The share of industrial jobs stagnated since 2013 while that of services increased but mostly towards lower productivity and largely informal activities as the share of services value-added in GDP remained broadly unchanged (B. 46.B). This pattern of slow structural transformation accompanied by shifts in the workforce, from self-subsistence agriculture in rural areas to informal and low-productive services in urban areas has been an important constraint to development.

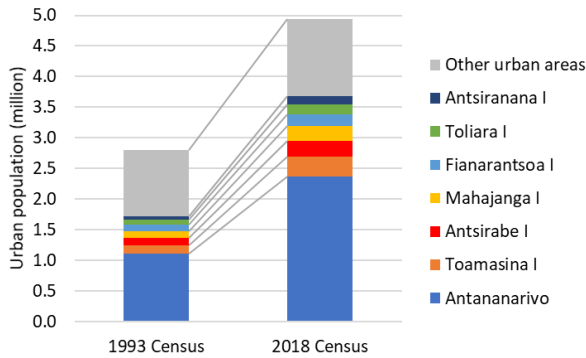
<sup>26</sup> For details, see Madagascar, Country Economic Memorandum (2021).

<sup>27</sup> Amin (2021)



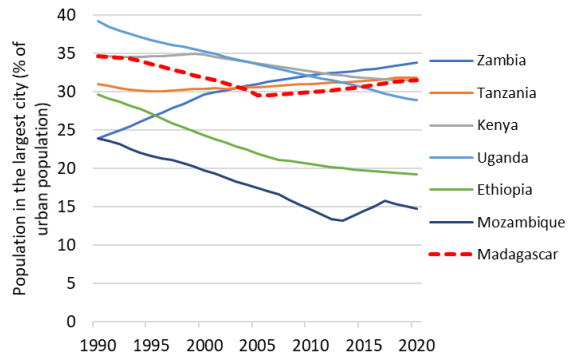
While other countries in Sub-Saharan Africa have had similar experiences, this contrasts sharply with aspirational peers like Bangladesh and Cambodia, where industrialization played a prominent role in their development (Figure 46.C).

Figure 47: Urban Population by City



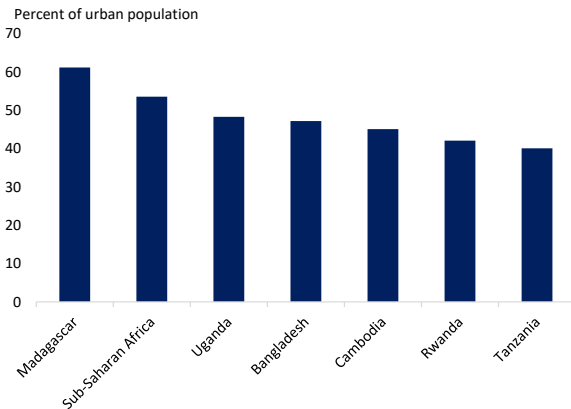
Source: MICS (2018), World Bank

Figure 48: Share of Urban Population in the Largest City



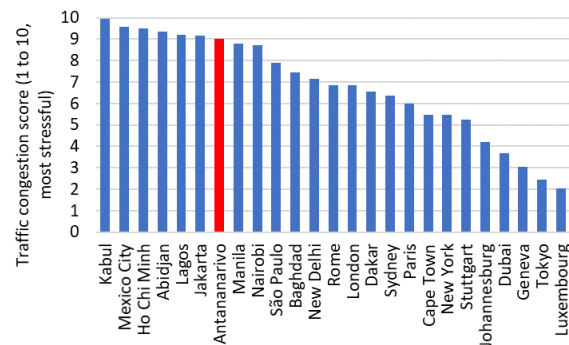
Source: World Bank

Figure 49: Urban population living in slums in 2018



Source: World Bank

Figure 50: Traffic congestion



Source: ZIPJET (2017)

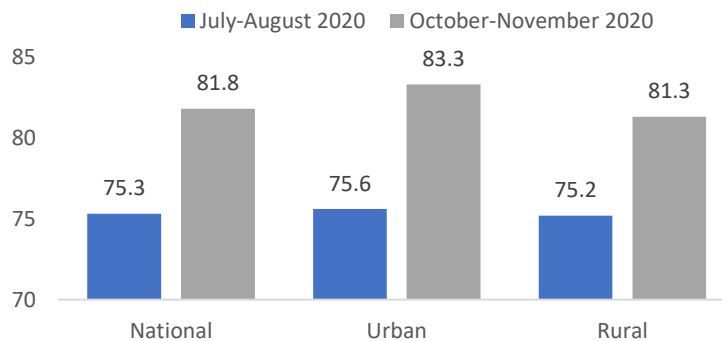
57. **Sprawling urbanization has created severe strains without generating much growth.** The urban population has increased by nearly 40 percent since 2013 to 10.7 million, with the bulk of the increase occurring in the capital city Antananarivo and driven by internal migration from struggling rural areas (Figure 47). With a total population of 3.3 million, Antananarivo is currently the fourth largest city in the Eastern and Southern African region, following Dar es Salaam, Addis Ababa and Nairobi, and accounts for half of the country’s urban population. Unlike other African countries where secondary cities have grown faster over the last decade, the share of the urban population living Antananarivo has increased further to reach 32 percent in 2018 (Figure 48). This has put significant strains on infrastructure, housing, and public services, with most non-monetary poverty indicators stagnating or deteriorating, the share of the population living in slums higher than in the rest of Sub-Saharan Africa (Figure 49), and traffic congestion



among the worst in the developing world (Figure 50). Traffic congestion alone are costing the economy around 0.35 percent of GDP every year, which is comparable to estimates for the United States.

58. **Several factors negatively impacting productivity have been exacerbated by the crisis.** In particular, the disruptions due to lockdowns and other measures to control the pandemic have meant that many enterprises in the formal sector have shut down or limited their operations. Informality has, therefore, likely increased. Commercial agriculture has also been affected more than subsistence agriculture due to disruption of supply chains, and trade-related sectors characterized by higher productivity and better-paying jobs have suffered the most from the disruption in global demand. Data from the high-frequency surveys also show that urban households have experienced larger losses in employment due to the pandemic-induced recession, further aggravating poverty risks (Figure 51). This likely amplified the decline in aggregate productivity and living standards, as both remain significantly higher in urban areas. As an illustration of that, average consumption per capita of self-employed is about twice larger in urban areas than in rural areas, likely reflecting difference in income and productivity levels.

**Figure 51: Households where a member has lost a job due to COVID-19, percent**



Source: Instat, World Bank, High Frequency Surveys (2020)

59. **Reforms supporting structural transformation have not made sufficient progress.** The development of the manufacturing and higher value-added services sectors continues to be constrained by barriers to market entry and regulatory uncertainty, as well as deteriorating infrastructure and education quality. Measures to raise agricultural productivity have been largely ineffective in reaching subsistence farmers who still cultivate most of the land and have much lower yields than their commercial counterparts. And while legislation was enacted to enhance the role of communes in service delivery, their impact on bridging urban-rural gaps has been muted due to the lack of implementation and poorly managed fiscal transfers and revenue mobilization at the decentralized level.

## 2.2.4 Vulnerability to Shocks

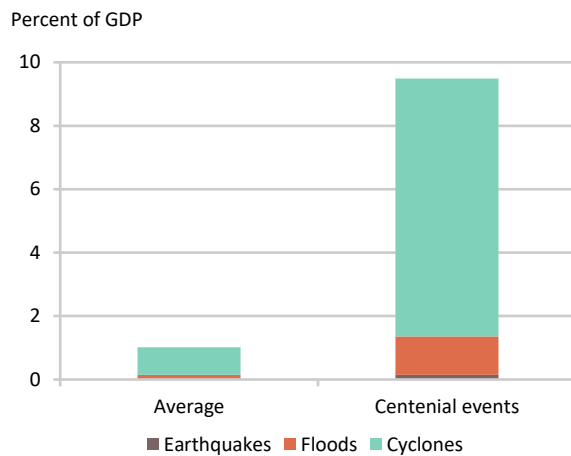
60. **The prospects for broad-based development are hindered by Madagascar’s high degree of exposure to shocks from a range of sources.** This susceptibility to shocks is evident in the frequency, magnitude and diversity of shocks; the persistence of their impact through shifts in and out of poverty, informality and subsistence agriculture; and the lack of resources and formal insurance mechanisms to mitigate their effects.<sup>28</sup> Notable examples over the two decades include political and constitutional crises, natural disasters and most recently, the COVID-19 pandemic and extreme droughts in the South.

<sup>28</sup> See Osborne et. al., *Shifting Fortunes and Enduring Poverty in Madagascar*, 2016, for a discussion of these.



61. **Recurrent political crises in the past have been a major factor preventing long-term gains in living standards and poverty reduction.** Political crises have disrupted all growth spurts since independence in 1960 and have led to losses in GDP per capita far exceeding gains during periods of stability. These crises were manifestations of conflicts among the ruling elites jockeying to gain control of the country’s resources and occurred precisely during multi-year growth spurts likely because those out of power had greater incentives to destabilize the regime in order to regain access to resource rents. The 2009-13 crisis was particularly long, and had lasting economic and social impacts, including the suspension of preferential trade agreements and international aid, which contributed to a sharp decline in the delivery of services (international aid represented 40 percent of the pre-crisis government budget).

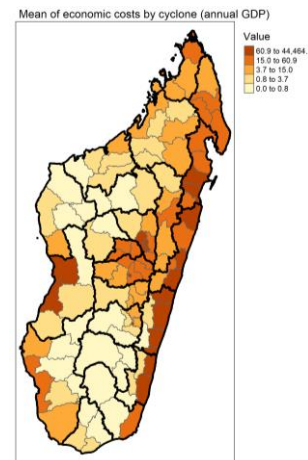
Figure 52: Estimated cost of natural disasters



Source: GFDRR and World Bank (2016).

Note: Modelled estimates of the total impact of hazards. Centennial events are once in 100-year estimated losses. A larger return period is associated with less likely occurrence but a greater intensity of disasters.

Figure 53: Economic costs of cyclones by region



Source: UNEP/DEWA/GRID-Europe

62. **Madagascar is highly vulnerable to extreme weather events.** Over the past 20 years, Madagascar has been hit by 35 cyclones, eight floods and five periods of severe drought (i.e. three times more than during the previous 20 years). On average, natural disasters are estimated to cost the economy about 1 percent of GDP each year, and up to 8 percent of GDP for once-in-a-century events (Figure 52), with devastating consequences for rural communities and agriculture-based activities along the Eastern Coast (Figure 53). In the past four years alone, Madagascar has been hit by two major tropical cyclones: Cyclone Enawo in 2017 and Cyclone Ava in 2018.<sup>29</sup> While Madagascar is highly exposed to climate shocks, several countries in the region and among aspirational peers face similar if not greater risks, highlighting that other factors might explain the severity of their impacts (Figure 54). In fact, the recent food insecurity crisis triggered by acute droughts in the South has illustrated the tight interconnection between the impact of climate shocks and other factors of fragility such as poverty, weak infrastructure, lack of access to public services and insecurity. These factors combined with a semi-arid climate create a challenging backdrop for subsistence agriculture in normal times and can turn even moderate climate shocks into a

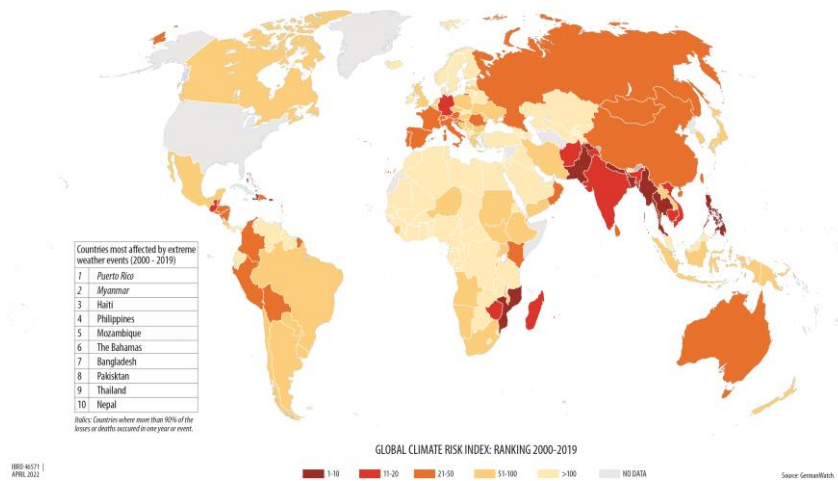
<sup>29</sup> Cyclone Enawo in 2017, the strongest cyclone since 2004, affected over 430,000 people and resulted in damage equivalent to four percent of GDP. Cyclone Ava in 2018 affected over 161,000 people and caused damage amounting to about two percent of GDP.





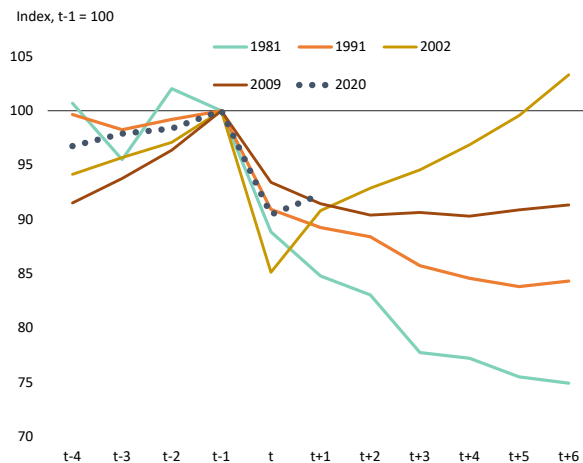
humanitarian disaster. While the attribution of recent drought and other extreme weather events to climate change is not clearly established, the prospects of rising global temperatures could result in a further intensification of these events over time, emphasizing the importance of addressing underlying factors of fragility and increasing climate adaptation.

Figure 54: Global Climate Risk Index



Source: GermanWatch

Figure 55: GDP per capita around major recessions



Source: World Bank

63. **The long-term impact of the COVID-19 crisis is unclear, but previous recessions have had long-lasting effects on living standards and poverty levels in Madagascar.** It is estimated that the pandemic will have shaved more than 10 percent on average income per capita in 2020 and 2021, which is larger than the initial impact of the 2009 crisis but somewhat less pronounced than the 2002 recession (Figure 55). The longer-lasting effect of the pandemic remains uncertain but previous adverse shocks have tended to depress potential output through three main channels. First, the loss of formal employment reduced aggregate productivity by forcing people into lower-productivity informal activities, including self-



subsistence agriculture. The process has proven difficult to reverse, even as activity bounced back after the recession. Second, learning outcomes deteriorated further during the crisis, adversely impacting human capital accumulation. Third, past shocks have tended to heighten economic and policy uncertainty, causing firms to delay or scale down their investment plans with negative consequences for growth and jobs. These impacts have already been at play with the pandemic shock, with private investment and FDI flows falling to a decade-long low in 2020.

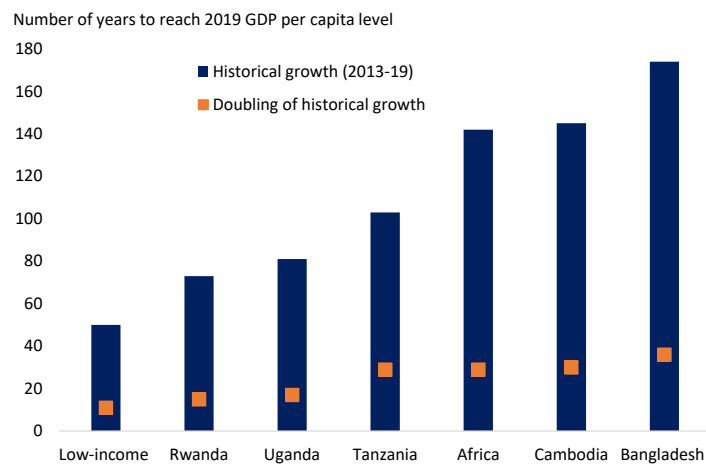
64. **Efforts to increase resilience to shocks made some headway prior to and during the pandemic.** On social protection, the legal and institutional foundations of the social safety net, including the main income support and cash for work programs that target the poorest, were strengthened. Nutrition-related interventions also contributed to a reduction in stunting rates from 48.9 percent of children under 5 in 2012 to 41.6 percent in 2018. However, they remain among the highest in the world, and there were important missed opportunities due to a lack of progress with more nutrition-sensitive agriculture and targeted WASH measures. The disaster risk management system was upgraded and meant that the poor were better protected against weather-related shocks.



### Chapter 3: Pathways to more Rapid, Inclusive and Sustainable growth

65. **In the absence of a new drive for reforms, Madagascar risks falling further behind in coming years.** A “business-as-usual” approach to policymaking would not reverse the secular decline in per capita incomes. Based on pre-crisis trends, it would take about 10 years of uninterrupted growth to revert the loss in average incomes that occurred during the 2020-21 crisis and 73 years to reach current living standards in Rwanda, which is Madagascar’s closest aspirational peer (Figure 56). To have a meaningful shot at reducing extreme poverty, the country would need to sustain significantly higher, more inclusive and sustainable growth over the medium term. If necessary reforms were implemented to double Madagascar’s growth to 7 percent annually, this would allow shortening the time needed to repair the damage of the crisis to two years and to catch up with Rwanda’s current living standards to 15 years. This can only happen if an ambitious and coherent development strategy was implemented to attract new investments, accelerate structural transformation and strengthen governance at all levels.

**Figure 56: Years needed to reach pre-crisis living standards of peers**

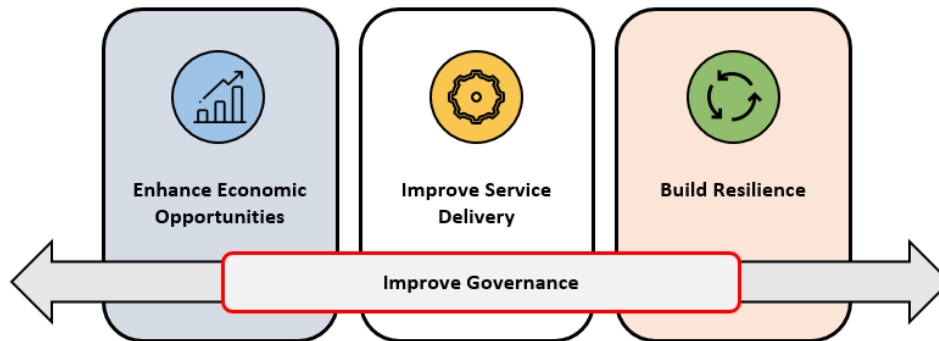


Source: World Bank

66. **Relaxing constraints to broad-based development will require simultaneous progress on four policy objectives.** For Madagascar to spur growth that is stronger, more inclusive and sustainable, it will be critical that its comparative advantages be leveraged to facilitate the necessary investments in human, physical and natural capital and enable economic and spatial transformation. This will help lift incomes and create more opportunities for sectors relying on improved domestic demand prospects, such as agriculture and commerce, where the bulk of the poor population works. Reflecting the diagnostic presented in the previous Chapter, reforms are identified across four complementary policy objectives: enhancing economic opportunities, improving service delivery, building resilience and strengthening governance (Figure 57). While these objectives remain consistent with those presented in the FY16 SCD, policy recommendations have been adapted to reflect changing circumstances and to put more emphasis on the actual implementation, which has been lacking in recent years.



Figure 57: Pathways to more rapid, inclusive and sustainable growth



### 3.1 Enhance Economic Opportunities

67. **To improve living standards and reduce poverty, it is essential that Madagascar increases its growth potential substantially and attracts new investments in sectors that will help drive structural transformation.** Despite its many assets, including rich natural resources, an abundant and affordable labor force, and high level of integration in global trade, the contribution of sectors where Madagascar has strong comparative advantages and of high-value services to activity and job creation has been stifled by a lack of investment in recent years. As a result, subsistence agriculture, low-productivity services, and other informal activities remain the dominant source of occupation and income, with the trend likely amplified by the impact of the pandemic. Low investment rates in the private sector in recent years reflects persistent policy uncertainty, the lack of a level playing field in major sectors of the economy, barriers to domestic and international trade, insufficient investor protection, and constrained access to land, capital, labor, and digital connectivity. Reversing these trends will require both economy-wide and sector-specific reforms, particularly in agriculture, apparel, tourism, ICT, and mining, which have a large untapped potential to support structural transformation. Reforms should expand opportunities for all groups of society, with a focus on populations that are most at risk of exclusion, including women and youth. Empowering women and girls through economic opportunities will be particularly important in supporting the demographic transition that is needed in rural settings where fertility rates remain high.

#### 3.1.1 Cross-Cutting Reforms

68. **Articulate and implement a robust strategy to support private sector development.** This strategy should lay out a well-coordinated reform agenda that reflects regular consultations with the private sector in its design and implementation phases. It should include time-bound actions aimed at: revising the Competition Law to prohibit the operation of cartels and improve market access; reinforcing the role and independence of the Competition Council and sectoral regulators to ensure a level playing field; adopting and implementing a new Investment Law that provides improved guarantees for investors and better access to dispute resolution mechanisms; lowering costs for starting and operating a business, including by streamlining and digitalizing government to business services such as business registration; and harmonizing the legal framework for investment through a new Investment Code that promotes transparency and better coordination among agencies. This strategy should also emphasize clear priorities and programs to promote SMEs and the digital economy.



69. **Deepen trade and value-chain integration.** Improving trade facilitation is a priority as non-tariff barriers impose a significant cost for exporters and importers. In particular, the trade facilitation roadmap that has been drafted as part of the WTO-TFA commitment needs to be fully implemented, and the role of the National Trade Facilitation Committee strengthened. These steps would help ensure greater transparency and reduce the scope of discretionary procedures. Reforms to improve inter-agency coordination, to implement a Trade Information Portal (TIP) to make information accessible to businesses, to reduce fees and charges, to reduce inspections, and to continue to improve processes and procedures need to be prioritized. The benefit of current free-trade agreements and the upcoming African Continental Free Trade Agreement could be leveraged by supporting regulatory convergence and improving the readiness of the workforce to take advantage of new market opportunities.

70. **Modernize land administration.** Despite ongoing efforts to modernize and decentralize land administration, fewer than 8,000 land titles are issued per year in the whole country and around 10 million plots remain to be registered. Decentralizing land administration to municipalities by establishing Local Land Offices that can issue land certificates more cheaply and quickly is a promising initiative that needs to be expanded so as to facilitate land transactions. For businesses, the adoption of the Private Titled Property Law could help ease land transfer procedures and establish the opportunity for land acquisition, while updating the Detailed Urban Management Plan would help define the zoning of dedicated land use, particularly for industrial and commercial activities.

71. **Promote financial inclusion and stability.** Priority reforms to increase financial inclusion include: adoption a new financial inclusion strategy; setting up a regulatory framework that is more conducive to Fintech, improving the financial infrastructure, including the payment system and credit bureaus; and finalizing the consumer protection framework. Reforms of the regulatory framework should also include the adoption of simplified customer due diligence for the opening of e-money accounts combined with efforts to improve identification of citizens through a secure and centralized national civil registration. Measures to enhance access to digital financial services could provide a significant boost to non-banked households, particularly those headed by women. The transformation of the post office could also help accelerate financial inclusion. These efforts should be complemented by measures to reinforce financial stability through the implementation of the banking resolution framework in the new Banking Law, the adoption of the law on financial stability, and the effective implementation of risk-based supervision.

72. **Enhance digital connectivity and inclusion.** Reforms to the legal, regulatory and financial framework for the ICT sector are needed to accelerate the digitalization of the economy, which would also support inclusion. To reduce the prices of broadband services, which has restricted broadband access to one of the lowest levels in the world, more competition in the ICT sector is needed. Specifically, control by the incumbent operator over key segments of the value chain, including the optic fiber backbone, needs to be reduced by providing for fair and equitable access to the backbone and international bandwidth by other providers and by facilitating investment in network expansion. Wholesale tariffs also need to be regulated to promote greater competition between operators and the affordability of services. To expand broadband access and reduce the significant digital divide between urban and rural areas, the Universal ICT Access Fund (FDTIC) needs to be reformed by instituting clear rules for allocating funds and putting in place financial management and accountability mechanisms to increase its transparency and its ability to disburse more quickly to rural connectivity projects.

73. **Promote the economic empowerment of women.** Improving the access of women and adolescent girls to economic opportunities can help reduce gender gaps in other domains as well. Greater economic empowerment of women and young girls can help improve their ability to accumulate human



capital as well as provide them more agency in terms of making choices about their lives, including about fertility and marriage. Three sets of reforms are needed in this regard.<sup>30</sup> First, legal and regulatory factors that limit women’s participation in the labor market or place them at a disadvantage relative to men should be modified. Particularly important in this regard are amending employment laws that restrict women from working in industrial jobs that are considered dangerous. It would also be worth amending the labor legislation to include a provision that guarantees equal remuneration for “work of equal value”. Second, legal barriers to female entrepreneurship should be removed. The most important of these would be legislation that prohibits gender-based discrimination in access to credit. Finally, interventions targeting young women’s access to secondary education and assisting their transition from school to work could significantly improve economic empowerment and reduce adolescent fertility rates.

### 3.1.2 Sectoral Reforms

#### Agriculture and Agribusiness

74. **Increase agricultural productivity and food security.** Four aspects are particularly important in this regard. First, constraints on access to high-quality seeds and fertilizers need to be addressed by: updating the catalog of fertilizers to automatically include products registered in any other SADC country; scaling up support to seed research institutions and distribution systems; strengthening seed control services and promote nutrition-sensitive agriculture. Second, the elimination of export bans on high-end rice and other agricultural products should be considered since their uneven application increases uncertainty for farmers and limits opportunities for expansion and modernization. Third, efforts to improve the ability of farmers to access markets should be improved. This can be achieved by improving rural roads with the aim of providing last-mile connectivity and through schemes to help set up collective processing arrangements, such as regional rice mills, and a warehouse receipt system that could enable smallholder farmers greater flexibility in selling their produce and accessing finance. More generally, supporting the financing of equipment, working capital, and the industrialization of food production, together with better access to market information and remote advisory services could help boost productivity and food security. Improving the functioning of the land market and increasing land security would also enable more productive farmers to expand their activity.

75. **Scale up the production of high-value products.** Madagascar has a comparative advantage in several high-value niche agribusiness products, such as vanilla, cocoa, spices and sea food, whose production can be increased if market access can be expanded. To do so, requires a more enabling business environment to attract much-needed private sector investment, better connectivity, and the development of competencies to meet quality standards required by regulations, consumer preferences or official certification. Extension services or support services delivered through producers’ associations and/or in partnership with private sector processors are critical in this regard, and should be supported, including through partnerships between research centers, universities, and the private sector. Efforts by some industry associations to limit competition and limit market access should be banned and best practices promoted by chartering private associations and multi-stakeholder groups.

#### Apparel and Garments

76. **Exploit new market opportunities, including high-end garments.** A sector strategy that seeks to boost adaptability to changing market conditions and helps the integration in increasingly complex global

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<sup>30</sup> See Women, Business and the Law Advisory, “Reform Memorandum for Madagascar”, April 2021, for details regarding laws that affect employment and entrepreneurship.



value chains will need to identify targeted reforms, focusing on both on the demand and supply side. On the demand side, the priorities are: advocating for the extension of market preferential access, particularly renewal of the African Growth and Opportunity Act (AGOA) after 2025; and ensuring that textile exporters are able to comply with the requirements of current and future free trade agreements, including the new African Continental Free Trade Agreement. Complementary supply-side measures include: capacity building for exporters, especially SMEs, to strengthen their business operations and management, to adapt to social and environmental requirements needed to access major international markets, and to support workforce skills through targeted vocational training.

### **Tourism**

77. **Enable a quick and sustainable recovery from the impact of the COVID-19 pandemic.** To help tourism recover quickly, public-private collaboration aimed at a sustainable post-COVID reopening of key destinations will be key. This will require: articulation and implementation of clear and improved health protocols; stepped up international marketing efforts, including a shift to digital channels; and identification and adaptation to changing tourist preferences. A clear regulatory framework for private concessions in national parks, which can help attract high-value tourists, should also be established to promote tourism in the longer term. Efforts to develop the sector and widen its impact on activity will be facilitated by adopting and enforcing the new Tourism Code and encouraging the integration of tourism activities with local economies, including artisanal and cultural offerings. Strengthening the framework for sharing benefits with local communities is an opportunity to promote employment and encourage the sustainable management of habitats that attract tourism. Finally, implementing a revised Open Skies policy by opening new routes and allowing new airlines to operate; reforming domestic air transportation by increasing competition in the domestic jet fuel market and attracting private investment to improve secondary airports; and developing road networks to tourism hubs are all essential to promote Madagascar as a tourist destination.

### **ICT Services and e-commerce**

78. **Improve the enabling environment for high-value IT services and e-commerce.** Effective training programs, developed and coordinated with IT businesses, would help address skill shortages in the IT-BPO and e-commerce sectors, as current curricula are not well adapted to market needs. Measures supporting entrepreneurship and joint venture capital for startups could help support the diversification of the sector into other niches, such as software and applications development, which could create jobs for educated youth in the labor force.

### **Mining**

79. **Provide incentives for sustainable mining investments.** In reforming the mining code, two measures would help in ensuring that sustainable investment in the sector are encouraged. First, removing the suspension on new mining permits, which has prevented new developments for the past decade, should help revitalize the sector and generate immediate revenues. Second, more clarity on Government policies towards mining, including possible legal or fiscal reforms to maximize the sector's contribution to development, should be provided, as new investments have been held back by such uncertainty. In addition, although Madagascar has been a member of the Extractive Industries Transparency Initiative, the government's engagement needs to be strengthened. It should strengthen its participation, promote systematic disclosure of sector data and contracts and dissemination of information to improve public understanding of the sector challenges and opportunities.



## 3.2 Improve Service Delivery

80. **Better access to social services and infrastructure, especially for underserved communities, will be key to support the post-crisis recovery and accelerate structural transformation.** Among the cross-cutting reforms to improved services delivery are measures to upgrade public investment management and ensure effective private sector participation in infrastructure development, ensure more adequate budget allocations to social sectors, improve the management of the civil servants' workforce, and accelerate the digitalization of public services. These measures will need to be complemented by sector-specific reforms in transport, energy, water, nutrition, health and education. Women's access to quality services and infrastructure will be particularly important to ensure that they have the same opportunities as men, which is key to improving human capital outcomes.

### 3.2.1 Cross-Cutting Reforms

81. **Better prioritize and execute investment projects.** Establishing a formal framework for the appraisal of investment projects is a critical step to improve access and quality of public infrastructure. This includes: screening the compatibility of project proposals with the national development strategy; undertaking systematic cost-benefit analysis to prioritize investments; improving the evaluation of implementation arrangements; and undertaking financial and fiscal risk assessments. New projects should only receive budget allocations if the estimated costs across the investment, operation and maintenance phases are covered based on realistic assumptions and the continuation of existing projects should be subject to regular evaluations. Increased reliance on private financing for infrastructure projects will also require addressing inconsistencies in the current institutional and regulatory framework for Public Private Partnerships (PPPs), including streamlining the management of unsolicited proposals and reinforcing the management of commitments and contingent liabilities. Transparency in the selection of projects and of private partners should be strengthened, along with the capacity to evaluate fiscal risks, with a view to informing policy decisions and ensuring fiscal sustainability.

82. **Ensure adequate spending and effective transfers to front-line providers.** An overarching priority to improve access and quality of services is to establish adequate targets for domestically financed public spending on health, education and social protection sectors and improve the capacity to deliver high-quality services at the local level. Key reforms in this regard include: shifting responsibilities for the management of public funds for social services to local authorities; simplifying budget execution procedures; and improving financial management capacity at the local level. These measures would also strengthen decentralization by ensuring greater operational and financial autonomy of service delivery units.

83. **Improve the management of the civil servant workforce.** The priorities include: transparent and merit-based recruitment; workforce planning; and career development and training. Transparent and merit-based recruitment would help reduce corruption, raise citizen satisfaction and trust, and promote performance and motivation among civil servants.<sup>31</sup> The deployment of civil servants across the territory should address staffing and skill imbalances with enhanced targeting of populations living in rural/remote areas of the country and the poorest. This should be supported by monetary and non-monetary incentives to ensure adequate staffing of positions in rural and remote areas and digital payment systems to help reduce absenteeism. Building a functional grievance redress mechanism is also critical to strengthen

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<sup>31</sup> Rauch and Evans 2000; Cingolani, Thomsson, and de Crombrugghe 2015; Meyer-Sahling et al. 2018





accountability and meritocracy in the hiring process. Digital technologies could be leveraged also to support the monitoring of frontline worker performance.

84. **Accelerate the digitalization of public services.** With close to a quarter of the population lacking documents to prove their legal identity, securing access to civil registration services and legal identity for all citizens will facilitate access to a range of services. Interoperability between services will not only contribute to improved public sector performance and reduced leakages, but also simplify access to public services and benefits when combined with a centralized identity registry. Building the government's institutions, infrastructure and in-house capacity to deliver better public services faster through digitalization will help to increase the coverage and the quality of public services, including through multimodal service delivery adapted to low-connectivity environments.

### 3.2.2 Sectoral Reforms

#### Energy

85. **Implement reforms to restore the financial viability of the power utility and improve access to energy.** Reforms aimed at JIRAMA's operational and financial recovery are a precondition to improve the quality and reliability of electricity supply and stimulate necessary investments. Priority reforms include: accelerating electricity tariff reforms, in particular for industrial use; improving JIRAMA's governance and increasing its management's autonomy; restructuring its arrears and rationalizing power purchase and rental agreements; implementing the Least Cost Development Plan (LCDP) for the development of large-scale renewables (Volobe, Sahofika); and updating the regulatory framework to restore its legal ability to sign power purchase agreements. To increase electrification access in Madagascar, specific reforms are needed to stimulate investments in: the densification and extension of the existing grids; the development of mini-grids so that areas too far from the existing grids can benefit from their local resources where the cost of interconnection is expensive; and the diffusion of solar kits (pre-electrification) for households and infrastructure located in other areas. To enable the deployment of such technologies in an institutionally, technically, and economically sustainable manner will require the development of a coordinated strategy, including the introduction of Electricity Law decrees and finalization of the grid code to enable the government to legally award production-related concession agreements to competitively selected private sector operators.

#### Transport

86. **Develop a more integrated approach to transport connectivity.** The sector requires a long-term multimodal strategy and priority investment plan to coordinate efforts and mobilize additional financing. Centralized planning and management of the primary roads network, increased financing for road maintenance, and climate-resilient road construction would help improve road connectivity and limit disruptions to transport during the rainy season and following cyclones. Developing a reliable railway infrastructure, which is key to enable more cost-effective and low-carbon transport, requires the resolution of Madarail's governance and ownership challenges and strengthened capacity to manage railway planning and concessions. Modernizing port management structure and increasing private sector participation in port operations could potentially help transform Madagascar into a regional hub given its proximity to major international shipping lanes. Finally, a credible restructuring plan for Air Madagascar is urgently needed to clear its debt, ensure its financial viability, and protect the operations of its more profitable domestic subsidiary, Tsaradia. Increased competition for international flights through the implementation of an Open Skies policy will ensure more affordable access to air transport and could provide a significant boost to the passenger and air freight traffic.



### **Education**

87. **Focus on upgrading teachers' skills and access to quality education in underserved areas.** The establishment of national teacher pedagogical skill requirements and the implementation of a transparent and merit-based procedure to award contracts for community teachers entering civil service in the framework of the National Teacher Policy will need to be expanded nationwide. To improve access to quality education in rural areas, effective implementation of the Teacher Deployment plan is needed, including the geographic assignment of newly hired teachers based on needs; the acceleration and simplification of administrative procedures related to human resource management; the targeting of qualified teachers in rural areas, including through the provision of monetary and non-monetary incentives. School grant and calendar reforms will also be crucial to improve education outcomes in rural areas. Finally, targeted measures to increase girls' participation in secondary education are essential to support both women's economic empowerment and reduced adolescent fertility rates.

### **Health**

88. **Assure access to basic health services for the poorest.** To achieve the objective of Universal Health Coverage and address the fragmentation of the current system of community health insurance and vouchers,<sup>32</sup> Madagascar needs a revised strategy to increase financial accessibility to basic health services to complement the law on health financing protection that is under preparation. The poorest and most vulnerable population groups need to be identified in order to formalize their eligibility for free health care, and financing for the equity fund (Fonds d'équité) to support the enrolment and free access to care for these groups needs to be secured. Improved management of healthcare workers is also vital with a particular focus on: integrating qualified and motivated health workers into the public health system; ensuring a better distribution of health workers with enhanced targeting of rural and remote populations and the poorest; and improving transparency and merit-based processes for the recruitment, deployment and promotion of health workers.

89. **Improve access to maternal care and family planning services.** To reduce Madagascar's persistently high maternal mortality rate, measures need to address multiple contributory factors. Specifically, the access of expectant mothers to prenatal care and assisted deliveries by trained healthcare workers needs to be increased, including by drawing in private providers where possible and by training community health workers. Allowing poor women access to maternal health services through conditional cash transfers can enhance affordability. Investments in the health sector need to be complemented by public spending on rural roads and education so that critically ill expectant mothers can seek and get specialized health care quickly. To address the high adolescent fertility rate and the still-high unmet need for contraception (16 percent among women aged 15 to 49 in 2017), family planning services need to be redesigned so that in conjunction with expanded girls' education, the social norms that limit the access of young women to contraception are addressed.<sup>33</sup>

### **Water and Sanitation**

90. **Improving water security by increasing the quality and resilience of water-related services.** To balance multiple water uses and bolster resilience to climate change, long-term investment planning must be guided by a national strategy that accounts for geographic disparities in water availability and access,

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<sup>32</sup> For example, vouchers for children and pregnant women exist only in some regions and free services are provided only for specific programs.

<sup>33</sup> Loaiza and Wong 2012.



competition between uses, and growing demand. Across irrigation, water supply and sanitation, this strategy would foster more efficient water use and streamline the institutional structure with clear responsibilities and collaboration to enhance water security. Urgent investments are needed to address water supply gaps in the quickly growing capital city of Antananarivo and in the acutely water-scarce Deep South. To break the cycle of low investments in infrastructure, operation and maintenance, well-defined investment plans and a coordination framework are needed. These would aim to increase resources dedicated to the sector and create incentives to improve service quality and build trust in guaranteed water provision by national water providers, especially JIRAMA in urban areas and through private sector participation in rural areas. More regular tariff revisions, with clear criteria for subsidies to the poor, will also need to be allowed.

### **Nutrition**

91. **Adopt a more integrated approach to improving nutrition outcomes.** Multi-sectoral interventions are key in achieving efficiency in improving nutrition outcomes. For child and maternal nutrition, a nationwide expansion of existing multi-sectoral programs, which encompass access to primary health services (maternal and child), water and sanitation services, and promotion of positive parenting practices, is now needed. Achieving such a scale up will require more public resources devoted to these programs as well as stronger national leadership. Including nutrition outcomes among the main targets of agricultural policy is also needed along with increased emphasis on food storage capabilities and the preservation of the nutritional quality along the value chains. Supporting the inclusion and participation of women in agricultural value chains can also help improve nutrition outcomes.

## **3.3 Build Resilience**

92. **Intensify efforts to protect vulnerable populations from the impacts of adverse shocks.** Madagascar is particularly vulnerable to climate, trade, governance, and health-related shocks, with most of its population having little or no protection against their impacts. The most immediate concern is to reduce the risk of a resurgence of the pandemic, upgrade social protection systems and reinforce disaster risk management. More robust social assistance should focus on raising the welfare of the chronic poor while better social insurance systems should help protect those who are vulnerable to falling into poverty. But for an economy as dependent on natural resources as is Madagascar, it is essential also to better manage land, forests, minerals and fisheries resources, as well as take steps that help adapt to climate change. It means promoting the adoption and sustainable uptake among rural households of climate-smart technologies and farm practices that can increase their productivity while strengthening the resilience of agriculture-based livelihood systems.

### **3.3.1 Strengthen the Pandemic Response**

93. **Accelerate the pace of COVID-19 vaccinations and strengthen the health system resilience.** Achieving critical levels of vaccination is needed to offer protection against the risk of a resurgence of the pandemic. This will require strong political commitment, clear communication, and an effective strategy to procure and distribute vaccine doses. Beyond the immediate crisis response, efforts are also needed to invest in long-term pandemic preparedness, including developing hospitals' capacities, and establishing Regional Pandemic Centers.



### 3.3.2 Broaden Social Protection Systems

94. **Increase the coverage of the social safety net for the poorest.** Since Madagascar has one of the lowest social safety net coverage rates in the world and among the highest levels of extreme poverty, the immediate priority is to increase coverage and establish adequate targets in terms of domestic spending for safety net interventions, since these are currently almost exclusively donor-financed. This expansion should be focused on the core social assistance programs, such as the human development cash transfer program. Consideration should also be given to using these programs to provide key early childhood development services so as to help reduce the high incidence of poor health, nutrition and education outcomes of poor children. Well-targeted social assistance programs can help increase gender equality by improving outcomes such as school attendance of girls, the nutrition and health status of girls and women, the uptake of family planning, and women’s autonomy. The targeting of these programs to the extreme poor can be improved through more systematic use of an enhanced Social Registry to identify beneficiaries, including those most vulnerable to droughts and pandemics. Climate risk insurance, with innovative products such as index-based or weather-based multi-peril insurance, should be introduced to scale up shock-responsive social protection for the most vulnerable.

### 3.3.3 Reinforce Disaster Risk Management

95. **Improve emergency preparedness and response capacities.** To enhance capacity for preparedness and response, especially at local levels, priority measures include: establishing a multi-hazard early warning system (cyclones, floods, food security, drought, hunger, health, and sanitary surveillance), including hydrometeorological forecasts and management for cyclones; developing contingency plans and strengthening local human and material capacities for implementing these plans; integrating the disaster risk management system with social protection systems to ensure rapid and well-targeted relief payment systems; and using technological innovations to improve access to warning information and the effectiveness of emergency responses. Improved disaster risk financing options can also contribute to better contingency preparedness, including strategies to leverage sovereign risk financing.

### 3.3.4 Accelerate Climate Adaptation

96. **Adopt climate-smart investment strategies.** A policy framework for climate risk screening in infrastructure projects could help develop more resilient and climate-smart investments. This includes identifying and addressing vulnerabilities in the transport network and drainage systems to increase disaster resilience. Catalyzing the transition of the agriculture and food sector towards a low- emission and climate-resilient pathway will also be critical. Scaling up climate-smart agriculture (CSA), as a strategy for addressing landscape management, food security and climate change challenges, will require efforts to mainstream this approach in national agriculture development and investment plans. A multipronged approach to diversify funding should be developed and implemented, tapping into available funding from private, public and climate-related institutions. To ensure sustainability, it will be critical to monitor the impact and success of current projects to understand the potential of initiatives attract increased investment. Addressing gender gaps in climate-resilient technology adoption (e.g, natural resource management investments, drought-tolerant crops) will contribute to accelerate climate adaptation and resilience to shocks.

### 3.3.5 Improve Natural Resource Management



97. **Improve security of land ownership.** Greater certainty regarding the security of land ownership would provide incentives for longer-term investments and support conservation. There is a need to review pending legislation to this effect and ensure that it extends to grazing lands, forests and protected areas as well as to agricultural land. Security of land ownership could also be enhanced by recognizing land certificates as equivalent in value to land titles.

98. **Better link agricultural activity with the management of natural resources.** With the growing dominance of agriculture among land uses, an increasingly pressing challenge is to integrate its activities into the management of watershed, biodiversity and forestry to preserve limited resources. Strengthening capacity and improving governance for integrated land management will enhance the potential for sustainability and growth among competing land usages. Innovative financing such as climate finance, PPP, payments for ecosystem services among others can provide incentives for integrated land management and reduce burdens on the state.

99. **Upgrade the management of marine and coastal resources.** The articulation and implementation of a blue economy policy that takes account of the value of coastal and marine resources could help improve spatial planning, including infrastructure, and contribute to finding an effective balance between exploitation of these resources for local livelihoods and tourism, and conservation. In addition, the adoption of a national action plan to prevent, deter and eliminate illegal, unreported and unregulated fishing is needed. If enforced effectively, it would help address overfishing and the resulting depletion of fish stocks.

### 3.4 Improve Governance

100. **Given their salience in explaining Madagascar’s lack of success in improving development outcomes, addressing governance weaknesses is a critical priority.** A strong commitment to reforms aimed at reducing state capture and the incidence of corruption, boosting transparency and accountability, accelerating decentralization, and restoring fiscal space is a precondition to ensure progress along the three pathways discussed above. Reforms aimed at expanding economic opportunities, improving service delivery, and building resilience all require better governance delivered through a more effective and efficient state that lays out and enforces appropriate and sustainable “rules of the game”, including through effective grievance redress and sanction mechanisms. It is in this sense that improved governance and stronger public sector institutions constitute a cross-cutting pathway to development progress in Madagascar, including in recovering from the crisis. The digital transformation of the public sector could contribute to those objectives by raising transparency, reducing the risk of corruption, improving revenue mobilization, and expanding the space for civil society participation. Maintaining fiscal sustainability will be critically important in the years ahead as debt dynamics deteriorated during the crisis and the government plans to increase public investment to support key infrastructure and social services. Enhancing capacity in areas such as public finance management (including revenue mobilization), public investment management and debt management will be critical to ensure that the benefits of borrowed resources always exceed the costs of servicing the additional debt.

#### 3.4.1 Reduce State Capture and Increase Transparency

101. **Reinforce anti-corruption policies and institutions.** It is critical that the mandate, independence, and budget resources allocated to anti-corruption institutions be strengthened and the weakening of anti-corruption efforts in the wake of the pandemic in 2021 be reversed. Adoption of the draft organic law on



the statute of the Court of Accounts would provide the necessary administrative, financial and technical independence needed to perform its audit mission more effectively, as well as the legal mandate to examine the use of all public funds and ensure follow-up action as needed. The mandates of the institutions involved in internal audit should be clarified and their capacity strengthened to ensure sound financial management and impose sanctions as needed.<sup>34</sup> The independence of the judicial system should also be enhanced by repealing regulations that require judges to seek authorization from the executive before initiating legal proceedings. With the payment system for public sector wages highly susceptible to corruption, improved human resource management and the use of electronic payment could help reduce the risk of abuse. Enforcement of legislation on asset declaration, asset recovery, and whistleblower protection also need to be strengthened.

102. **Increase transparency and citizens' voice.** Although the Constitution provides for the right to information, there is no law that defines formal procedures for requesting government information. The National Assembly publishes drafts and adopted legislation on its website, and although changes to legislation are made through transparent legal and political processes, these are done in most cases without public consultations. And despite recent efforts to improve transparency and access to information on public spending, there are significant delays in publishing key documents related for instance to budget execution. Priority actions include: adopting a Freedom of Information Law that allows citizens greater access to information about public finances and proposed legislation; setting up a national-level and publicly accessible information portal about government policies; ratifying the OECD/Global Forum on fiscal transparency; revising campaign financing laws, providing citizens with information on the performance of local officials (e.g. school performance data); and publishing details of contracts, particularly for natural resource extraction, including mining.

103. **Expand space for civil society.** More can be done to operationalize the legal framework that recognizes the importance of community participation, including civil society, in improving local service delivery in the social sectors and managing infrastructure. Participatory budgeting at the commune level is one way of facilitating such community involvement. To incentivize its adoption by more local jurisdictions, the transfer of capital investment funds could be conditioned on its implementation.

104. **Promote the freedom of the press. Limitations on the constitutional provision regarding press freedom** that have been imposed recently should be rescinded so that citizens can hold the government accountable. For instance, controls on the issuance of broadcast licenses and other provisions of the Communications Code as well as the use of criminal libel laws and other provisions in limiting those who investigate issues such as cattle rustling, and the illicit extraction of natural resources have limited the ability of citizens to report violations of laws.

### 3.4.2 Improve Public Financial Management

105. **Improve public spending efficiency.** The quality and selectivity of public spending are essential to improve development outcomes and to ensure that when it is debt financed, socio-economic benefits exceed the cost of servicing additional debt. Improving the prioritization, planning, and execution of public spending would require a reinforced Medium Term Expenditure Framework (MTEF), as well as improved

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<sup>34</sup> Including the *Direction générale de l'Audit Interne*, the *Direction de la Brigade d'Inspection et de vérification du Trésor*, *Inspection générale des finances* (IGF), the *Inspection générale de l'État* (IGE), and the *Conseil de Discipline Budgétaire et Financier* (CDBF).



capacity to manage public investment and PPPs and better instruments to inform project selection and monitoring. Strengthening payroll management and controls is also urgently needed to ensure greater accuracy and reduce leakages. In addition, the operationalization and expansion of e-procurement platform, in line with Open Contracting principles, would help ensure better access to information, more competition, and less scope for corruption. Improving the management of SOEs; reforming fuel price systems to prevent the accumulation of liabilities towards fuel distributors and containing the deficit of the civil servants' pension fund could also help reduce wasteful and regressive transfers and subsidies. Improving the financial viability of key SOEs (e.g. JIRAMA and Air Madagascar) and limiting quasi-fiscal activities would contribute to rebuilding the necessary fiscal space to support priority spending in social sectors and infrastructure.

106. **Accelerate decentralization.** For the decentralization process to take hold, transfers and budgeting at the commune level must be made more transparent and predictable, allowing local government to improve the planning and implementation of activities. The current process for subsidy transfers to the almost 1,700 communes in Madagascar is cumbersome and results in delays in receipt of funds, which disrupt service delivery. A revision of the subsidy transfer formula and the categorization of communes along with the automatization of the subsidy transfer process would help address this issue. Legislative and institutional arrangements should also be adopted to allow for the gradual transfer of competences to communes, with regards to primary education and healthcare. Expanding participatory budgeting at the communal level would help ensure that funding is allocated to priority needs. This could be incentivized by conditioning the transfer of capital investment funds to its implementation. In parallel, the capacity of communes should be strengthened to mobilize, manage, and report on the use public revenues.

107. **Boost revenue mobilization.** Increasing revenue mobilization will be key to rebuild fiscal buffers and should be done in ways that support investment. The most promising avenue in the short term is through the digitalization of tax declarations and payments, improvements in tax administration, and the rationalization of costly tax exemptions. The digitalization agenda has made considerable progress recently, but reforms in other areas have been slower. Using a reliable unique tax identifier would also help increase the efficiency of tax collection, allow for noncompliance to be managed more efficiently, and help gradually cover smaller and more informal companies. A system to ensure the credible evaluation of the benefits of tax exemptions should be implemented to avoid wasting limited fiscal resources that could be used more effectively through well-targeted infrastructure and social spending. In this context, regular impact studies could help determine which exemptions are retained or eliminated, and new measures should be conditioned on a thorough cost-benefit analysis that includes clear performance criteria. Eventually, all tax exemptions should be consolidated into the General Tax Code for greater transparency and predictability. Mining royalty rates could also be increased so that they are closer to international standards without creating an undue deterrent for new investments that could jeopardize future revenues.

108. **Mitigate debt sustainability risks.** Further strengthening debt transparency and debt management capacity will be critical to prevent escalating debt sustainability concerns as the government plans to increase borrowing and rely more on non-concessional financing. Risks from public guarantees, commercial loans and retrocessions to SOEs, contingent liabilities, the operation of a new sovereign wealth fund and plans to increase commercial borrowing deserve particular attention. To mitigate those risks, institutional and regulatory reforms as well as capacity building will be required, including to ensure better and more complete data on borrowing, reliable debt sustainability assessments and improved contingency planning in crisis situations. With most public borrowing being denominated in foreign

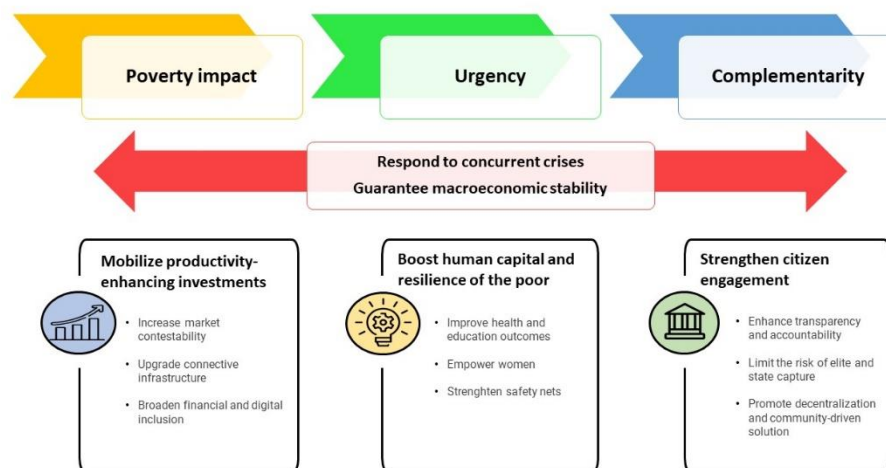


currencies, currency risks also require close attention, especially as greater reliance is likely to be placed on commercial and non-concessional external financing going forward. Reforms to improve the functioning of domestic primary and secondary bond markets could help diversify sources of financing and reduce currency risks over time.

### 3.5 Prioritization of Policy Interventions

109. This SCD Update identifies priority interventions that are needed to address the most salient constraints to development as part of a coherent strategy. With limited progress in both development and policy outcomes since the FY16 SCD, most of the policy priorities presented at that time remains valid today. However, this Update offers new insights on the factors that have led to a further deterioration in living standards and rising poverty, including low investment levels, low productivity and the absence of structural transformation, and high exposure to shocks. It emphasizes that weak governance and pervasive state capture have prevented meaningful policy progress towards addressing those constraints and remain a critical obstacle to faster economic development. While the previous section offered a comprehensive set of policy and institutional reforms needed to ensure broad-based development, prioritized and well-targeted interventions will be critical to yield better policy outcomes in an environment characterized by limited institutional capacity, reduced fiscal space, and political economy constraints. To help prioritize interventions, three criteria were used: (a) the likely impact of the proposed measure on monetary and non-monetary poverty, which includes its ability to increase both the level and quality of investments in order to accelerate economic and spatial transformation; (b) the degree of urgency associated with the reform, particularly its ability to prevent longer-term damage from the current crises and to stimulate a recovery in jobs and incomes; and (c) the extent to which the intervention is necessary for other measures to yield benefits, including the necessity to improve legal, regulatory and institutional frameworks, improve public financial management and develop better checks and balances.

Figure 58: Priority interventions



110. Selected priority interventions are those that have the greatest chance of reducing poverty in coming years. First of all, a forceful response to recent climate shocks, faster vaccination against COVID-19 and measures to preserve macroeconomic stability in the face converging crises are considered preconditions to a sustained recovery. Beyond these essential prerequisites, priority interventions are regrouped under the following three objectives: (i) mobilize productive investments to accelerate





economic and spatial transformation; (ii) enhance the human capital and resilience of the poor to improve their livelihoods; and (iii) strengthen citizen engagement to create a new social contract and limit state capture (Figure 58). This prioritization scheme is informed by the analysis presented in Chapters 1 and 2 of this SCD Update as well as internal and external consultations and the analysis of the government's development plan (*Plan Emergence Madagascar*). Box 4 summarizes the results of the online public consultation undertaken in May and June 2021, which contributed to this process.

### 3.5.1 Avoid Long-Term Scaring from the Crisis and Guarantee Macroeconomic Stability

111. **Alleviate the impact of recent climate shocks.** Addressing the ongoing food security crisis and building the resilience of the food system to climate shocks in the South are critical to save lives in the short term and reinforce the livelihood of vulnerable populations over time. These include: scaling up nutrition and cash transfer programs; upgrading water points for multi-use purposes; rehabilitating food storage capabilities; and supporting staple food production through improved access to seeds and other inputs. Over time, developing collective storage facilities and setting up warehouse receipt systems could enable smallholder farmers to improve all-year food supplies and enhance access to finance that could help support critical investments in irrigation, higher quality inputs, and equipment. Improving the efficiency of transportation and distribution networks will also be important to allow food to move from surplus areas to locations where stockpiles are insufficient to compensate for production shortfalls. Rapid-response programs to alleviate the impact of a sequence of severe cyclones in early 2022 also need to be scaled up, including through the restoration of essential health, school and transport services and emergency financial assistance.

112. **Accelerate COVID-19 vaccination and health sector preparedness.** Reaching the government's goal of vaccinating a majority of the population will require stronger commitment at all levels of government; clear communication on the vaccination strategy, including access to vaccines and their benefits; mobilization of community health workers and private doctors; and effective procurement and distribution of vaccine doses. Readiness to confront new outbreaks of the pandemic will need to be reinforced by increasing the availability of relevant equipment in hospitals, enhancing testing capabilities, and operationalizing Regional Pandemic Centers. In tandem with steps to reduce the incidence of COVID-19, it will be necessary to improve health protocols to facilitate the safe reopening of the country to tourism and business travels, which will contribute to accelerate the recovery.

113. **Maintain macroeconomic stability.** Preserving fiscal sustainability in the face of multiple shocks and large investment needs will require much greater focus on the selectivity, planning, and execution of public investment projects, together with reforms to accelerate domestic resource mobilization, ensure prudent management of public debt and contingent liabilities, and improve the financial and operational viability of key SOEs. A system to ensure the credible evaluation of the benefits of tax exemptions should be implemented to avoid wasting limited fiscal resources that could be used more effectively on priority infrastructure and social spending. It is also vital that the Central Bank continues to ascertain its credibility in maintaining price and exchange stability and its commitment to strengthening its operational framework.

### 3.5.2 Mobilize Productivity-Enhancing Investments

114. **Encourage market contestability in key sectors of the economy.** Attracting private investors in agriculture, where an overwhelming majority of the population works, in key connectivity infrastructures,



and in sectors in which Madagascar has strong comparative advantage such as high-value agribusiness products, textile, tourism, ICT services and mining will require facilitating market access and contestability of incumbent companies. More competition is needed, including through the prohibition of cartels and the implementation of credible rules to address dominant market positions. Measures to streamline procedures for business registration, construction permits, utilities connections, procurement, and customs clearance, could help boost entrepreneurship and job creation, including through growth of MSMEs. Eliminating market distortions associated with poorly targeted subsidies and tax exemptions are also important to level the playing field and create new market opportunities, particularly in the agribusiness sector. Finally, greater consistency and clarity of rules applying to private investment across sectors, special investment regimes, and legal status is needed to increase investor confidence. Easing land acquisition and transfer, developing an integrated framework to manage agricultural, grazing and forest lands, improving commercial and industrial zoning in urban areas, and supporting the development of industrial poles will also be critical to support economic and spatial transformation.

115. **Upgrade connectivity infrastructure and digital inclusion.** Exploiting synergies in the mutual deployment of energy, transport and digital infrastructure has the potential to create new levers to improve connectivity for underserved areas and support agglomeration around secondary cities where the potential for growth is the greatest. Attracting much-needed investment in the power and water sectors will require significant strengthening of the performance and financial viability of the national utilities company JIRAMA, a stronger role for the private sector in service delivery, and an improved legal and institutional framework for PPPs. Coordinated and targeted investments in road and railway infrastructure is particularly vital to unlock the economic potential of rural areas and can help stimulate growth and job creation in the short term through labor-intensive construction and public works. Digital transformation will also need to be accelerated through a mix of legal, regulatory and financial reforms in the ICT sector and an overhaul of the Universal Access Fund (FDTIC) to ensure more effective investments in underserved areas.

116. **Increase financial inclusion.** Priority interventions to boost access to finance and inclusion include regulatory reforms to promote Fintech, improvements in payment system and credit risk assessment infrastructures, and enhanced access to digital financial services, including through the adoption of simplified customer due diligence for the opening of e-money accounts. These efforts should be complemented by measures to increase competition in financial services and reinforce financial stability through the implementation of a new banking resolution framework, the adoption of the law on financial stability, and the effective implementation of risk-based supervision. Measures to enhance access to digital financial services could provide a significant boost to non-banked households, particularly those headed by women.

### 3.5.3 Boost Human Capital and Resilience of the Poor

117. **Improve education and health outcomes.** Considerable efficiency gains are possible in the education and health sectors, particularly through reforms in human resources, public financial management, results-based financing, and decentralization. The enforcement of national skills requirements for teachers, effective staff deployment strategies and an improved financial model for schools are all key priorities the reverse the recent deterioration in learning outcomes. Access to health services for the poorest needs to be eased by improving identification of those eligible for subsidized care, while greater access to prenatal care, assisted deliveries by trained professionals, and effective nutrition programs for expectant mothers and children are key to reduce the incidence of child and maternal mortality as well as stunting.



118. **Empower women.** Family planning services need to be redesigned so as to improve access to contraception and help reduce high adolescent fertility rates, which jeopardize women's social and economic empowerment and adversely impact health outcomes. Interventions targeting young women's access to secondary education and supporting their transition from school to work are also key to improving economic opportunities and to reducing fertility rates. This should be complemented by the removal of legal and regulatory barriers to women's participation in the labor market, access to finance and entrepreneurship.

119. **Reinforce social safety nets.** A further expansion of social safety net programs is needed and should rely on an enhanced Social Registry to identify beneficiaries, including those most vulnerable to cyclones, droughts and pandemics. These programs can help incentivize participation in childhood development, nutrition and family planning services, and to boost school attendance. Well-targeted social assistance programs can help increase gender equality by improving outcomes such as school attendance of girls, the nutrition and health status of girls and women, the uptake of family planning, and women's decision-making power and autonomy. Climate risk insurance, with innovative products such as index-based or weather-based crop insurance, should be introduced to scale up shock-responsive social protection for the most vulnerable. To enhance resilience to climate shocks it will also be important to develop multi-hazard early warning system, develop contingency plans and strengthening local human and material capacities for implementing these plans.

### 3.5.4 Strengthen Citizen Engagement

120. **Reduce the influence of vested interests on public policy.** A critical element of much-needed governance reforms is to find ways of reducing state capture and limit an overdue influence on policy decisions. The introduction of conflict of interest and revolving door regulations, reforms of campaign financing laws and proper enforcement of rules on asset declarations and asset recovery are among priority interventions that could help reduce this influence. Moreover, carrying out political economy risk assessments and credible impact evaluations ahead of important regulatory reforms can help improve policy design and reduce the risk of regulatory capture.

121. **Reduce corruption and increase transparency.** Increasing public sector accountability is a precondition to restore trust in government and improve policy outcomes. This requires strengthening mandates and more independence for anti-corruption institutions, the judiciary, and the court of accounts as well as reinforcing whistleblower protection and the freedom of the press. The expansion of e-procurement platform could also help ensure better access to information, more competition, and less scope for corruption. Finally, abiding by international transparency initiatives, including the Global Forum on Tax Transparency and the Extractive Industries Transparency Initiative, would increase disclosure requirements and limit opportunities for fraud and tax evasion.

122. **Accelerate decentralization and support community-based solutions.** Greater autonomy and control of decentralized entities will be critical to improve the quality and responsiveness of public services to local needs, notably requiring more predictable transfers from the central government and increased capacity to manage spending and raise revenues. Expanding participatory budgeting at the communal level would also help ensure that funding is allocated to priority needs. This could be incentivized by conditioning the transfer of capital investment funds to its implementation. In parallel, the capacity of communes should be strengthened to mobilize, manage, and report on the use public revenues. Finally, community-based approaches to last mile service delivery could help alleviate governance constraints in a low-capacity environment and help develop effective solutions when



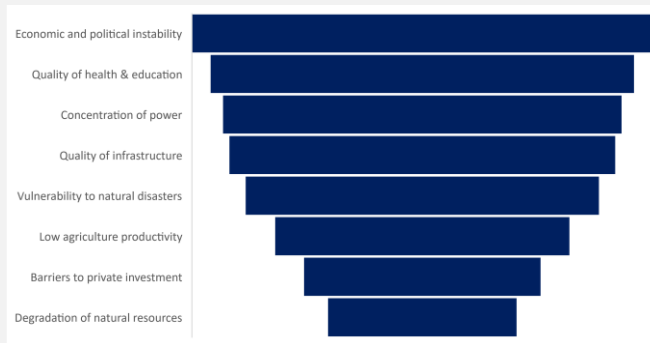
supported by robust engagement of beneficiaries and clear performance and financial management objectives.

123. **While priority interventions are well identified, meaningful progress will only be possible if there is strong political ownership of needed reforms.** This ownership is essential to ensure effective implementation for better policy and development outcomes. Engaging and informing people about the need and benefit of reforms is key to ensure the necessary support for change and increase the likelihood of policy success. Building coalitions of reform supporters in the private sector, CSOs, and international partners, strengthening communication and supporting third-party voice could all contribute to reinforcing policy buy in. Effective targeting of program beneficiaries will also be key to help maximize impacts on poverty in an environment of limited fiscal and institutional capacity.

**Box 4: Public Consultation on Constraints and Pathways to Inclusive Growth**

An online public consultation was undertaken in May and June 2021 and promoted through the World Bank Group social media channels. 225 citizens responded, expressing their views on eight pre-identified constraints to development and making a number of recommendations to address them. The results fed into the preparation of the SCD Update and proved largely consistent with its analytical underpinnings.

**Figure B4.1 Main constraints to inclusive growth**



Source: World Bank Survey, May-June 2021

Overall, the consultation revealed broad agreement among respondents on the cross-cutting role played by poor governance and the importance of scaling up measures to reduce corruption, improve public sector transparency and accountability and accelerate decentralization.

To ensure private sector-led growth and job creation, respondents emphasized the need to fight state capture and corruption and to ensure greater regulatory and policy certainty for investors. Top priorities also include facilitating business creation, cutting red tape and reducing factor cost (energy, transport and

access to information).

For agricultural development, land tenure security for small producers has been largely mentioned as a precondition. Other areas of reforms include improving connectivity and irrigation infrastructure, strengthening advisory services and technology transfer to improve agricultural productivity and to add value.

To increase opportunities for youth, three main reforms have been suggested: (a) improving availability and access to quality academic training and professional training responding to market needs including apprenticeship and alternance training, (b) support to business creation; and (c) access to information, training in entrepreneurship and finance

To improve access to quality health and education services, particularly in rural areas: proposed reforms include increasing and improving infrastructure (schools, health centers), strengthening teachers and health workers' training, promoting merit-based recruitment and promotion, providing substantial financial incentive for staff willing to relocate in rural areas.



Four packages of reforms were suggested in the natural resource management area: (a) decentralized management of natural resources and local communities' empowerment, (b) fight against corruption, strengthening of controls and enforcement of sanctions; (c) awareness rising and education on the importance of natural resources and (d) provision of other income-generating activities as an alternative to resource overexploitation.

To increase resilience to climate shocks, respondents highlight several reforms: adoption and dissemination of anticyclonic standards, better framing of infrastructure via development plans and urbanization plans, improvement in disaster preparedness with information and food and seed storage infrastructure, and social protection mechanisms to support the most vulnerable and environmental actions to reduce the impact of natural shocks.



**Annex 1: Assessment of progress towards 2016 SCD policy objectives**

Key Policy Objectives from 2016 SCD	Progress since 2016	Relevance of Objectives and Reasons for Progress/Lack of Progress
<i>Governance</i>		
<p><b>1. Understand the dynamic of degradation of law and order and reverse the trend by strengthening relevant entities; adopt decisive measures to stop trafficking of precious woods as a signal to end impunity and promote better local livelihoods.</b></p>	<ul style="list-style-type: none"> <li>Overall, the quality of the justice system is hampered by a legacy of poor law enforcement and high level of corruption in the judiciary system.</li> <li>Nonetheless, positive progress has been achieved in recent years. In 2020, Madagascar registered a slight improvement in its rule of law index scoring 0.44 as compared to 0.43 in 2019.</li> <li>On the anti-corruption front, the legal framework is quite comprehensive with two updated anti-corruption laws (2016)</li> <li>Over the past three years, the number of cases reported and investigated by the anticorruption agency (BIANCO), the anti-money laundering agency (SAMIFIN) and the specialized jurisdictions PACs have progressively increased.</li> <li>Efforts on digitalization have also yielded positive results, particularly in the area of commercial justice as exemplified by the implementation of randomized case assignment to judges, significant improvement on processing time, timely publication of decisions.</li> <li>ENV:</li> <li>On prosecution of precious woods several cases (over 30) were brought to the tribunal however actual convictions have not materialized.</li> </ul>	<p><b>Reasons for progress:</b></p> <ul style="list-style-type: none"> <li>Donors have supported the government in setting up and strengthening Anti-Corruption Poles (PACs) and other anti-corruption institutions through adopting of laws on anti-money laundering and the recovery of illicit assets.</li> </ul> <p><b>Reasons for limited progress:</b></p> <ul style="list-style-type: none"> <li>Weak institutions and extensive state capture: due to inadequate internal management and implementation capacity of the core administration, Accountability bodies or mechanisms constrained by politicization, lack of capacity and resources as well as arbitrary court decisions and corruption.</li> <li>Resistance from networks in public and private spheres. The judiciary remains subject to political and executive interference.</li> <li>Suggested amendment of the anti-corruption law that suggest a reduction in the mandate of the PACs.</li> </ul> <p><b>ENV:</b></p> <p>The mandate to prosecute these crimes is not clear and cases remain unresolved even when they are transferred to relevant courts.</p>
<p><b>2. Improve the center-periphery relations through decentralization (e.g. implementation of the existing law) and greater community engagement in economic and social processes</b></p>	<ul style="list-style-type: none"> <li>The implementation of decentralization reforms remains very challenging despite strong commitment to the process</li> <li>Recent legislation has increased the role of communes in local service delivery in social sectors such as education and health as well as for the management of small infrastructure (local markets, rural roads, etc.).</li> <li>In 2017 and 2018, the government adopted a set of decrees that mandates the State to publish the annual program of transfers to communes with amounts for each transfer, to allow communes to better plan their resources. (decentralization)</li> </ul>	<p><b>Reasons for limited progress:</b></p> <ul style="list-style-type: none"> <li>Slow progress in reform pace is partly attributed to political economy considerations as central ministries stand losing authority and power in financial management.</li> <li>Local governments' resources are derisory considering their mandate. Less than 1 percent of the overall government budget is allocated to communes nationwide (US\$7,500 per commune on average).</li> <li>Local revenue mobilization remains low.</li> </ul>



	<ul style="list-style-type: none"> <li>In terms of community engagement, a recent regulation has put in place the Local Concertation Structure as a platform of discussion toward inclusive decision-making for local governance.</li> </ul>	<ul style="list-style-type: none"> <li>Implementation gaps of adopted laws and regulations remain significant.</li> </ul>
<p><b>3. Weaken the elite bargain by cultivating counter-powers (e.g., civil society, press and national assembly) empowering citizens with access to information, and protecting press freedom</b></p>	<ul style="list-style-type: none"> <li>Adoption of two important legislative measures to further promote transparency and accountability in public spending</li> <li>After substantial delays, the government published substantial data online in line with the provisions of these legislative texts.</li> <li>Madagascar also recently became eligible to join the open government partnership after its score improved on budget transparency due to timely publication of the audit report.</li> <li>Recent actions taken by the government and parliament that have undermined government transparency and openness (limited public consultation and dialogue on budgetary allocations and cuts, constrained public information).</li> </ul>	<p><b>Reasons for limited progress:</b></p> <ul style="list-style-type: none"> <li>Freedom of the press is also undermined by criminal libel laws and other restrictions (Freedom House, 2020). Safety risks faced by journalists and activists on sensitive topics.</li> </ul> <p>Several reasons can explain limited influence of CSOs on accountability issues:</p> <ul style="list-style-type: none"> <li>Competition for limited resources rather than genuine cooperation among CSOs, despite a proliferation of networks and platforms.</li> <li>High-level dependency of the CSOs on donors.</li> <li>Politicization of the CSOs.</li> <li>Lack of social rooting on the part of organizations' leadership.</li> </ul>
<p><i>Public Finances</i></p>		
<p><b>4. Increase tax revenues by tackling the underlying causes of low collection</b></p>	<ul style="list-style-type: none"> <li>Madagascar's tax-to-GDP ratio remains low compared to region average despite recent reforms conducted by the government to mobilize revenue.</li> <li>Effective digitalization efforts, supported by the WB and other partners, have managed to mitigate the impact of COVID for 2020.</li> <li>Tax collection efforts increased annually by an average of 0.4 percent of GDP since 2014. The implementation of the Treasury single account has improved the management of revenue proceeds from the Treasury.</li> <li>Both tax and customs administrations have put in place staff performance contract with support from the WB to improve the integrity and performance</li> </ul>	<p><b>Reasons for limited progress</b></p> <ul style="list-style-type: none"> <li>The country only accounts for about 420,000 registered taxpayers for a total population of 26 million, limiting the ability of the tax administration to increase the revenue base.</li> <li>In cases of fiscal audit, arrangements between tax civil servants and controlled firms are frequent to reduce tax adjustments.</li> <li>Overall, the persistent low ratio is in part due to generous exemptions to tax regimes, low levels of compliance, widespread tax evasion, and high informality.</li> </ul>
<p><b>5. Establish or reinstitute budget oversight mechanisms to create greater accountability and better performance on the expenditure side</b></p>	<ul style="list-style-type: none"> <li>The Court of accounts managed to regularly publish its annual report since 2015-2016.</li> <li>With support from the Bank, the Court of Account has revamped its website and set up a platform where various audit reports are accessible to government officials with a view to improving their decision-making processes.</li> <li>Development of a software to facilitate the collection of financial reports from local governments and their review/control.</li> <li>However, production of public accounts remains slow, far below international best practices. Court of accounts and IGE (General Inspection Body), conducted regular high-risk audit over the last two years.</li> </ul>	<p><b>Reasons for limited progress:</b></p> <ul style="list-style-type: none"> <li>The role of Parliament and the judiciary, in creating more effective accountability mechanisms is limited due to lack of independence, capacity and resources, as well as politicization.</li> <li>Oversight bodies are heavily reliant on donor funding.</li> </ul>



<p><b>6. Finalize PPP framework to engage the private sector in the financing of infrastructure and service delivery</b></p>	<ul style="list-style-type: none"> <li>As part of its support to inclusive and sustained private sector-led growth, the Bank provided support to strengthen the PPP legal and institutional framework.</li> <li>Between 2016 and 2018, more specific support (including from WB PPIAF resources) was provided to the Ministry of Finance, via the PPP directorate.</li> <li>While the legal framework is in place, it remains incomplete and unused. While the PPP law enacted in 2016 allows for and frames the implementation of PPP projects, it has failed to leverage private investments so far.</li> <li>The World Bank (through the Growth Poles project and PPIAF) and the AfdB have provided strong support to the PPP agenda. This support has included capacity building, technical assistance, and drafting of manuals and methodologies to manage fiscal risks.</li> <li>A preliminary PPP project pipeline was elaborated in 2018 but could not be formalized due to delays in convening the PPP committee.</li> </ul>	<p><b>Reasons for limited progress:</b></p> <ul style="list-style-type: none"> <li>Key issues that remain to be addressed include: the absence of pro-activity of the national committee, and the lack of visibility, legitimacy, and transparency for the PPP Unit currently attached to the Ministry of Land Management.</li> <li>The regulatory framework remains heavy and includes bottlenecks to leverage private investment despite the efforts to integrate “best practices”.</li> <li>Key provisions that constraint its effectiveness include provisions such as conditions relating to private initiative projects such as the various environmental and social studies required, and competitive bidding for projects, the lack of transparency regarding the selection of partners and PPP-able projects and the inconsistency with other legal texts (for example, the electricity code) were also identified as important constraints.</li> </ul>
<p><i>Private Sector Development</i></p>		
<p><b>7. Provide priority complementary public investments in areas propitious for private sector development and job creation (e.g. seeking partnerships in air transport to unleash tourism potential)</b></p>	<p><b><u>Air Madagascar Strategic partnership:</u></b></p> <ul style="list-style-type: none"> <li>The World Bank (through PIC2.1) supported the development of an Air Transport Policy Letter, which was adopted by the Government Council in May 2017.</li> <li>A strategic partnership agreement was concluded between Air Madagascar and Air Austral in 2017. The Government and the Parliament approved the clearance of Air Madagascar’s debt, amounting to MGA 88 million in 2018.</li> <li>Unfortunately, the strategic partnership agreement was ended in 2020 and 43 percent of Air Austral shares have been reassigned to CNAPS – the National Social Security Fund.</li> </ul> <p><b><u>Local-level infrastructure investments</u></b></p> <ul style="list-style-type: none"> <li>The World Bank (through the Integrated Growth Poles and Corridor Project 2, 2015-2019), supported complementary public investments in infrastructure and basic services to enhance attractiveness for private investment in three regions of the country.</li> <li>Investments were focused in and around existing clusters of economic activity in the tourism and agribusiness sectors.</li> <li>In parallel, municipalities were supported in order to strengthen local management of infrastructure investments and service provision.</li> </ul>	<p>The signing of the strategic partnership sent positive signals to the private sector at the national and international level. Its recent termination, however, puts into question the government’s credibility in terms of improving the business climate and securing FDI.</p> <p><b>Reasons for limited of progress:</b></p> <ul style="list-style-type: none"> <li>Poor infrastructure and services – and limited access to them – continue to be binding constraints for private sector development in the country.</li> <li>Addressing fundamental infrastructure and capacity challenges continues to require a set of integrated transversal and sectoral public interventions to resolve market failures and de-risk private investments.</li> <li>The COVID-19 context is inevitably impacting local government capacity to invest in infrastructure rehabilitation and renewal</li> </ul>





<p>8. Identify and prioritize policy reforms through the new public-private dialogue platform to improve investment climate and promote FDI, to enhance the performance of the judicial sector, and to address anti-competitive behaviors and enhance firms' corporate governance.</p>	<ul style="list-style-type: none"> <li>• <u>New investment law</u>: Amendments &amp; updates were made to the national investment law in line with best international practices including fair and equitable treatment, equal treatment of foreign &amp; domestic investments (under a reciprocity condition), indirect expropriation, dispute settlement provision, and the abolition of CIPENS for foreign investors (<i>Carte d'identité professionnelle des étrangers non salariés</i>).</li> <li>• <u>Judicial reforms</u>: important strides were made to ensure that enforcing contracts in MDG is easier. Law nr 2016-039 of January 2017 reforming the civil procedure code was passed to reduce the processing time for commercial procedures to one year maximum through several means:</li> <li>• Finally, law n° 2017- 012, effective April 2018, establishes a special procedure for minor civil and commercial disputes to speed up and simplify the execution for the recovery of small claims.</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of government support and buy-in for the Economic Development Board of Madagascar's (EDBM) mandate</li> </ul> <p><u>PPD Platform</u>:</p> <ul style="list-style-type: none"> <li>• Scarcity of meetings (the platform met once in 2019) and the lack of follow-up by public stakeholders.</li> <li>• Sectoral PPDs have encountered more success, as is the case with the Tourism Confederation and their ongoing dialogue with the Ministry of Transport and Tourism.</li> </ul> <p><u>Competition</u>:</p> <ul style="list-style-type: none"> <li>• Insufficient resources for the Competition Council which has hindered it from undertaking independent inquiries and investigations.</li> </ul>
<p>9. Address the main constraints identified by the private sector: reliable access to electricity, broader access to finance, and expanded transport infrastructure. Where relevant, improve governance and performance of state-owned enterprises.</p>	<p><u>Access to Finance</u>:</p> <ul style="list-style-type: none"> <li>• Slow progress toward financial inclusion and limited access to financial services but offset by increasing access to digital financial services and the rapid expansion of mobile money services (both for firms and households).</li> <li>• <u>E-money law and its related secondary legislation</u>: The establishment of a regulatory framework for e-money operators has enabled to promote the use of e-money services and operationalize e-money providers.</li> <li>• <u>Law on private credit bureaus</u>: The establishment of a private credit bureau is aimed at reducing asymmetric information and thereby boost credit access and financial inclusion.</li> <li>• <u>Adoption of new laws (MFI law, new banking law as well as reforms on financial sector supervision and NBFIs reforms)</u></li> </ul> <p><u>Transport</u>:</p> <ul style="list-style-type: none"> <li>• In 2019, two presidential ordinances were issued to abrogate the Madagascar Road Agency (ARM) and the Road Maintenance Fund (FER) and replace them with the Road Agency (AR) and the Road Fund (FR),</li> <li>• As a prior action of the Inclusive and Resilient Growth DPO (166425), the Council of Ministers has issued a decree amending the FER's (Road Maintenance Fund) statute to increase transparency.</li> <li>• As agreed within the framework of the Second Inclusive and Resilient Growth DPO (P166425) prior action in 2017, the Council of Ministers has issued a decree amending the FER's statute to specify the annual fraction of project expenditures allocated to communal road maintenance.</li> </ul> <p><u>Energy</u></p>	<p><u>Reason for limited progress</u>:</p> <p><u>Access to Finance</u>:</p> <ul style="list-style-type: none"> <li>• <u>Cost of borrowing</u> is high, banks are risk averse, access to credit is limited and cost prohibitive.</li> <li>• <u>Scaling up the use of Digital Financial Services</u> and address the constraints related to the legal and regulatory framework for DFS, which is limiting and not up to date with the trends and digitalization development</li> <li>• <u>Fostering Financial stability and Financial integrity</u>, namely in the post COVID-19 context. Financial stability and financial integrity continued to be challenging as well for the banking and financial sector, supervision and regulatory framework reforms; and continue modernizing the financial sector to support private sector development and financial inclusion.</li> <li>• <u>Modernizing the credit and financial infrastructure</u>: the need to adopt the legal framework on secured transaction and collateral registry. This reform has delayed the implementation of a comprehensive credit infrastructure reform.</li> </ul> <p><u>Transport</u>:</p> <ul style="list-style-type: none"> <li>• After the abrogation of the Road Maintenance Fund (FER) in 2019, and its replacement with the Road Fund (FR), none of these actions have been included in the new statutes of the FR, which could be interpreted as a lack of willingness from the government to sustain these agreed-upon reforms.</li> </ul>



	<ul style="list-style-type: none"> <li>• 2018: The governance of the sector is established by the updated legal framework “Electricity Code”.</li> <li>• 2018: Adoption of the Least Cost Development Plan (LCDP) for the electricity generation and transmission.</li> <li>• 2019: New management for JIRAMA has been recruited.</li> <li>• 2020: A new JIRAMA grid-connection policy that aims to facilitate new grid connections for low-income households has been adopted.</li> <li>• 2020: Social equity and cost recovery of residential tariffs improved through optimization of tariff structure (adopted in July 2020, pending implementation/rollout).</li> </ul>	<p><b>Energy</b></p> <ul style="list-style-type: none"> <li>• Since its adoption in 2018, the new Electricity Code has not been applicable due to the delays for the adoption of the implementing decree by the Council of Ministers.</li> <li>• Considerable delay in the availability of the report.</li> <li>• The slowdown on the finalization of the PPA related to large hydro (Sahofika and Volobe) identified by the LCDP is due to the complexity of the negotiations.</li> <li>• JIRAMA’s financial recovery plan elaborated by Castalia on 2019 showed that all recovery efforts will not be sufficient for the utility to reach a positive cash flow in the next five years.</li> </ul>
<b>Human Capital</b>		
<p><b>10. Support the poorest in accessing education, basic health, and nutrition through the development and implementation of a social protection policy (such as conditional cash transfers programs)</b></p>	<ul style="list-style-type: none"> <li>• The Government of Madagascar has made progress in establishing the policy, legal and institutional foundations of a strong social safety net (SSN) as part of its overall social protection system.</li> <li>• Through the SSNP, the World Bank provides substantial financial and technical assistance to Madagascar’s core safety net programs. The two core programs include: <ul style="list-style-type: none"> <li>a. <b>the Human Development Cash Transfer (HDCT) program</b> provides income support to the poorest families to boost household consumption, food security, nutrition and human capital, including in areas most vulnerable to climate risks.</li> <li>b. <b>The Productive Safety Net Program (PSNP)</b> provides cash-for-work activities in targeted poor communities in areas which face high levels of environmental degradation as well as potential to increase local agricultural production.</li> </ul> </li> <li>• From short-term efforts in 2014 to advance individual delivery systems, the SSNP has now reached over 2.5 million individuals with regular cash transfers and complementary support.</li> <li>• Public financing dedicated to social safety net programs in Madagascar is among the lowest in the world[2] at only 0.3 percent of GDP as of 2018.</li> <li>• High vulnerability to crisis in Madagascar requires short term emergency response to meet the immediate needs of vulnerable households.</li> <li>• The established protocols and processes within the context of strengthened humanitarian -- development linkages were successfully applied in response to the COVID-19 crisis.</li> </ul>	<p>The economic downturn due to the COVID-19 crisis, compounded by recurring natural disasters and chronic poverty, continues to threaten Madagascar’s economic development and long-term stability.</p> <p><b>Reasons for Progress:</b></p> <ul style="list-style-type: none"> <li>• World Bank’s financial and technical support to the social protection sector in Madagascar through: (i) the social safety net project (one initial financing coupled with two additional financing packages – a third additional financing package in response to the COVID-19 is under preparation and expected to be approved in early 2021); (ii) the Human Capital DPO (first phase in 2019 – second phase is under preparation and expected to be approved by the end of 2021); (iii) the CAT-DDO approved in 2019</li> <li>• The Government’s growing interest in social protection and realization of this sector’s importance in tackling poverty as well as in assisting vulnerable populations during crisis, especially during the response to the COVID-19 pandemic in Madagascar</li> </ul> <p>Madagascar</p> <p><b>Reasons for limited progress:</b></p> <ul style="list-style-type: none"> <li>• Limited financial resources allocated to social protection and enabling the expansion of SSN programs’ coverage</li> <li>• Government fiscal capacity to fund impacted by the COVID-19 crisis</li> </ul> <p>Government and operational activities have been impacted by the COVID-19 crisis</p>



<p><b>11. Improve the quality and equity of education by investing in pre- and in-service training for all teachers, improving the distribution of teachers across the country, and gradually integrating trained community teachers in the system, while maintaining local accountability mechanisms</b></p>	<ul style="list-style-type: none"> <li>The country’s Education Sector Plan (ESP) for 2018–2022 is bold and credible to improve quality (learning), access, and governance in the education system. The plan recognizes the large system challenges, notably around the need to improve learning and access.</li> </ul> <p>However,</p> <ul style="list-style-type: none"> <li><b>Quality:</b> 97% of children are not able to read and comprehend a simple text in French (learning poverty rate, WB, 2019).</li> <li><b>Teacher training:</b> Teachers have serious gaps in knowledge and teaching ability</li> <li><b>Equity:</b> The teacher policy was developed and approved in 2018, and a pilot on new recruitment procedures for new community teachers was launched; teacher deployment plan has been developed .</li> <li><b>Local accountability:</b> The Madagascar Basic Education Support Project (P160442) supported the development of a new school grant formula to determine allocations to schools in December 2019.</li> </ul>	<p><b>Reasons for progress:</b></p> <ul style="list-style-type: none"> <li>Ministry and partners support, as part of the implementation of the education sector plan.</li> </ul> <p><b>Reasons for limited progress:</b></p> <ul style="list-style-type: none"> <li>However high turnover of staff (6 ministers since the start of the project) has affected the initial / of the ESP, and the COVID-19 pandemic is further threatening the learning environment and learning level of students.</li> <li>Economic challenges including high out-of-pocket expenditure for families on education, lack of teacher motivation (delay in salary payment), teacher performance and teacher absenteeism have affected the education system.</li> <li>The lack of budget measures associated with the Government’s decision to abolish school fees reduce both community accountability and school functioning.</li> <li>The increase education budget and/or financial support is important to maintain service delivery, particularly in the fragile context of post-COVID-19.</li> </ul>
<p><b>12. Prioritize and invest in first-level rural health facilities, train and distribute health personnel across the country, and remove out-of-pocket costs at facility levels, particularly for poorest communities</b></p>	<ul style="list-style-type: none"> <li>Prioritization of investments for 1<sup>st</sup> level facilities through the reform on transfers of funds to primary health care facilities</li> <li>Madagascar’s health system spends less than US\$ 5 per person per year, far less than the regional average (US\$ 84).</li> <li>Government health expenditures were 4.8 percent of general government spending for the fiscal year 2019 which resulted in US\$ 3.8 per capita in 2019 and include on-budget foreign funds. This is extremely low even compared to the subgroup of sub-Saharan low-income countries with a median per capita expenditure of US\$ 23.4.</li> <li>No progress on the implementation of the UHC strategy was made since early 2019.</li> </ul>	<ul style="list-style-type: none"> <li>This objective remains highly relevant and reforms are supported by the 2<sup>nd</sup> phase of the HC DPO.</li> </ul> <p><b>Reasons for limited progress:</b></p> <ul style="list-style-type: none"> <li>Slow progress can be partially explained by the COVID-19 crisis in 2020 and institutional changes with presidential election early 2019.</li> </ul>
<p><b>13. Renew focus on nutrition and scale up interventions that tackle stunting and</b></p>	<ul style="list-style-type: none"> <li>Through the Improving Nutrition Outcomes project financed by the Bank, high impact interventions against stunting are being scaled up (8 regions by the end 2021).</li> <li>Stunting rates are slowly decreasing from 47% in 2012 (MDG survey) to 42% in 2018 (MICS data).</li> </ul>	<p><b>Reasons for progress:</b> High commitment to fight stunting and acute malnutrition. However, a better understanding of the difference between stunting and acute malnutrition at all levels is needed.</p>



<p><b>14. Implement policies and increase investment to improve water and sanitation, starting in large urban areas</b></p>	<ul style="list-style-type: none"> <li>• Urban sanitation master plans have been developed and adopted for 8 secondary cities (financed by AfDB) and Antananarivo (financed by AFD).</li> <li>• An urban water project (JIRAMA WATER III) has been prepared for 65 MEuros (co-financed by EIB/EU) to support water investments in Antananarivo. <i>No impact yet as just effective.</i></li> <li>• Ministry of Water, Sanitation and Hygiene (MEAH) elaborated and adopted a national WASH policy (Politique nationale de l’eau, de l’assainissement et de l’hygiène - PNEAH) to define the sustainable development of the WASH sector in Madagascar.</li> <li>• The WB via the PIC project financed water investments(around 5 MUSD) in Tuléar to improve access to water in this town.</li> <li>• The WB prepared a project (MIONJO) to be implemented in the Deep South, with a 20 MUSD water component. <i>No impact yet as just effective.</i></li> <li>• UNICEF financed for around 5 MUSD works rehabilitation for a water pipeline in the Deep South, and supported MEAH to implement a PPP to Operate and Maintain these facilities.</li> <li>• JIRAMA (the national water and energy urban utility) financed an emergency works program to increase the water production for Tana (extension of a water treatment Plant, and few boreholes with local treatment) – works are going, additional daily production estimated at 64,000 m3, to fill the estimated gap of 100,000 m3/d</li> </ul>	<ul style="list-style-type: none"> <li>• The objective remains relevant as the water and sanitation sector suffer from low access rate to water and sanitation services. The sector suffered from lack of investments.</li> </ul>
<p><i>Rural poverty and natural resource management</i></p>		
<p><b>15. Improve agricultural productivity through the introduction of more productive methods, support for local organizations, financing for better farm-level and road infrastructure, enhanced land security, and higher human capital.</b></p>	<ul style="list-style-type: none"> <li>• The effort to improve agricultural productivity has not resulted in higher food production and improved food and nutrition security.</li> <li>• A growth of agricultural export revenues was observed before the COVID-19 crisis.</li> <li>• Increasing public recognition of land certificates as equivalent in value to land titles is contributing to land security.</li> <li>• Uptake of modern technologies is difficult to scale up beyond areas directly supported by financial and technical partners: adoption remains localized.</li> <li>• Private sector participation in commercial or export-oriented value chains and PPPs are contributing to improving farm-level practices and production (e.g. cocoa, sea cucumber and seaweed, high quality honey, organic certified).</li> <li>• Improvement of human capital was focused on producers’ training and capacity building (in the field).</li> </ul>	<ul style="list-style-type: none"> <li>• The objective remains relevant.</li> </ul> <p><b>Reasons for progress:</b></p> <ul style="list-style-type: none"> <li>• MFD approach in value chain development and public-private dialog helped put the foundation for better value chain performance in some high-potential export crops.</li> </ul> <p><b>Reasons for limited progress:</b></p> <ul style="list-style-type: none"> <li>• The enabling environment of agribusiness and lack of transparent and consistent public policy measures are still limiting private sector investments and increased market competition.</li> <li>• Weak extension services limit the adoption of productivity-enhancing techniques/practices.</li> </ul>



	<ul style="list-style-type: none"> <li>Investments to unlock high potential agricultural areas are underway: rehabilitation of RN44 (rice basket of Alaotra), RIP 117M (rice basket in Sofia), RNT12A along the Southeastern Coast, RP13D (cocoa region).</li> </ul>	<ul style="list-style-type: none"> <li>Low availability of modern inputs (e.g. good quality and certified seeds and fertilizers) contributes to low performance.</li> <li>Investments in the construction and/or rehabilitation of infrastructure (i.e., irrigation, storage) remain limited.</li> <li>Highly variable weather conditions and increasing frequency and intensity of climate shocks debilitate agriculture systems and sector performance.</li> <li>Potential of agriculture to improve nutrition grossly underexploited, due to knowledge gaps and weak coordination.</li> </ul>
<p><b>16. Enhance management of natural resources, by improving the mechanisms through which communities' benefit from it, adopting a landscape approach that integrates mechanisms for better watershed and forest management, and strengthening the capacity for law enforcement.</b></p>	<ul style="list-style-type: none"> <li>Some progress on integrating local needs into landscape planning, especially in linking agriculture improvements and forest management.</li> <li>Concrete benefits for communities from sustainable forest management remains limited.</li> </ul>	<p><b>Reasons for limited progress:</b></p> <ul style="list-style-type: none"> <li>Efforts to transfer forest carbon revenues to benefit local communities have been stifled by the Ministry of Finance including non-respect of the terms of carbon sales.</li> <li>The budget of the Ministry of Environment has been cut drastically limiting ability to enforce laws. Tourism revenue for Protected Areas depends on investments in infrastructure and tourism offer and interministerial tension (between MinEnv and Min land Management) have limited ability to attract private investment.</li> <li>Covid-19 drastically reduced tourists and expected revenue for protected areas in 2020 (only 1% of expected revenues realized).</li> </ul>
<p><b>17. Institute mechanisms for protecting the poor from weather-related shocks through mitigation and prevention measures and disaster response financing mechanisms</b></p>	<ul style="list-style-type: none"> <li>A shock-responsive social protection mechanism established benefiting to the most vulnerable population</li> <li>National Contingency Fund established within BNGRC (expected to be operational in the new 2 months) to increase the predictability of resources for disaster preparedness and response.</li> <li>New Insurance law adopted allowing the purchase of sovereign catastrophe insurance from foreign entities</li> <li>Resilient buildings regulatory framework adopted (national standard for the construction of disaster-resistant)</li> <li>Climate change adaptation and DRM mainstreamed into urban, communal, and regional planning</li> </ul>	<ul style="list-style-type: none"> <li>Madagascar remains highly exposed and vulnerable to climate disasters. (Cyclone Enawo in 2017 and Cyclone Ava in 2018, consecutive years of drought)</li> <li>Vulnerability of the poor was exacerbated by COVID-19.</li> </ul> <p><b>Reasons for progress:</b></p> <ul style="list-style-type: none"> <li>DRM Reforms initiated in 2019 have strengthened the national system for disaster risk management, promoted financial protection to disasters and mainstreamed disaster and climate resilience into territorial and urban planning.</li> </ul>



**Annex 2: Analytical work supporting the SCD Update**

Themes of the 2020 SCD Update	Name of new ASA and main conclusions
<p><u>Improve governance and strengthen public sector institutions</u></p> <ul style="list-style-type: none"> <li>• Macroeconomic stability</li> <li>• Debt management</li> <li>• Revenue mobilization</li> <li>• Efficiency of public spending</li> <li>• Decentralization</li> <li>• Voice, accountability and transparency</li> </ul>	<p><b>PEFA – supported by AfDB</b></p> <ul style="list-style-type: none"> <li>• Poor budget credibility reflecting on global expenditures and revenues and ministerial budgetary allocations</li> <li>• Programmatic budgeting approach needs further strengthening, including performance monitoring mechanisms</li> <li>• Lack of timely and comprehensive budget reports, with important share of off-budget transactions (estimated at 10% of the general government budget)</li> <li>• Poor and insufficient management of public assets which undermine economic and social development</li> <li>• Limited assessment and poor management of fiscal risks, ex. monitoring of SOEs.</li> <li>• The budget preparation process is well ordered, despite late approval of spending ceilings by the cabinet. The draft budget law is adopted without any substantive debate or discussion of important questions from the Parliament.</li> </ul> <p>Quality of predictability and control of budget execution is very mixed. Strengths include: sash management and internal control of non-salary expenses appear. Weaknesses: revenue collection, and large stock of expenditure arrears</p>
	<p><b>Corruption in Customs (Working Paper 9802)</b></p> <ul style="list-style-type: none"> <li>• 10 percent of declarations were handled by inspectors that were not randomly assigned, plausibly because of manipulation of the IT system that assigns them.</li> <li>• Non-randomly assigned declarations were shown to be subject to higher tax rates, have higher potential tax yield, higher risk scores, and lower unit prices than those reported for declarations containing the same goods. Non-random assignment is thus associated with higher tax revenue losses.</li> <li>• Customs inspectors are shown to provide preferential treatment to these declarations by clearing them faster, being less likely to require value, weight, and tax adjustments, and failing to identify fraud. Such corruption is costly; tax yield for non-randomly assigned declarations would have been 26 percent higher in the absence of excess interaction between inspectors and brokers.</li> </ul> <p><b>Does Better Information Curb Customs Fraud? (Working Paper 9254)</b></p> <ul style="list-style-type: none"> <li>• Better information to customs inspectors and improved monitoring affect tax revenues and fraud detection but does not eliminate corruption.</li> <li>• Third-party valuation advice on high-risk import declarations increases fraud findings by 21.7 percentage points and tax collection by 5.2 percentage points.</li> <li>• For declarations not subject to third-party valuation advice, detailed comments increase reporting of fraud by 3.1 percentage points and improve tax yield by 1 percentage point.</li> <li>• However, valuation advice and detailed comments have a significantly smaller impact on revenue when potential tax losses and opportunities for graft are large.</li> </ul>



	<ul style="list-style-type: none"> <li>Monitoring induces inspectors to scan more shipments but does not result in the detection of more fraud or the collection of additional revenue.</li> </ul>
	<p><b>Opportunities and Constraints to Open Government Partnership (OGP) Membership in Francophone and Lusophone African Countries (P171097)</b></p> <ul style="list-style-type: none"> <li>- Weak political commitment to transparency reforms exacerbated by high corruption level</li> <li>- Mass demand for transparency and accountability with genuine cooperation among CSOs remains limited</li> <li>-Support to oversight institutions should be strengthened</li> </ul> <p><b>Policy Implications:</b></p> <ul style="list-style-type: none"> <li>- Ensure judicial and financial independence to oversight institutions to make anticorruption and Anti-Money Laundering laws and regulations effective</li> <li>- Support adoption and implementation of access to information legislation</li> <li>- Promote membership to the OGP in the short term</li> <li>- Create a Digital Government Services Unit</li> <li>- Adopt and implement the legal, institutional and infrastructure foundations for digital governance</li> <li>- Adopt regulatory reforms for open standards in the private sector (notably, open Application Programming Interfaces)</li> <li>- Update the governance mechanism of the universal access fund (FDTIC) to promote efficient and transparent use of such fund</li> <li>- Develop and implement a fintech legal framework and development strategy, including for consumer protection</li> <li>- Enforce legislation that promotes market competition to address affordability of internet usage</li> </ul>
<p><u>Enhance economic opportunities</u></p> <ul style="list-style-type: none"> <li>• Business climate</li> <li>• Competition policy</li> <li>• Trade policy</li> <li>• Access to finance</li> <li>• Sectoral policies, particularly agriculture</li> <li>• Women and youth empowerment</li> </ul>	<p><b>P153329 - Madagascar Agriculture and Rural Development Non Lending Technical Assistance</b></p> <ul style="list-style-type: none"> <li>• poor, seemingly conflicting and outdated data on the agricultural sector handicap the understanding of the sector and decision-making.</li> <li>• Agriculture performance is constrained by multiple interdependent issues : (i) weakness of human capital; (ii) low access to inputs and poor uptake of improved technologies; (iii) inadequate production, post-production (storage) and transport facilities; (iv) land security concerns and fragmentation of farmland; and (v) high exposure to environmental hazards and climate change.</li> <li>• Enhancing access to economic opportunities and consequently increasing agricultural incomes imply two key interventions: (i) promoting a sustainable increase in productivity and (ii) enhancing small farmers access to markets.</li> </ul> <p><b>Policy Implications:</b></p> <ul style="list-style-type: none"> <li>• Modernizing agricultural statistical systems</li> </ul>



	<ul style="list-style-type: none"> <li>• Productivity could be increased through three pathways : (i) ensuring land tenure security to increase incentives for agricultural investment and improved access to credit; (ii) promoting an appropriate use of modern inputs to increase yields and agricultural output; and (iii) strengthening the links between agricultural production and nutrition to improve the health status of rural households which, in turn, is essential to ensuring the productivity of agricultural labor and safeguarding human capital growth.</li> </ul> <p>Recommendations to improve smallholders’ access to markets: (i) via outgrower schemes and (ii) by exploring new markets opportunities in inclusive subsectors for high-value products.</p>
	<p><b><i>P160761 &amp; P164567 - Scaling up Smallholder Inclusion in Value Chains – Rice and Dairy case studies – and subtask P160145 - El Nino impacts in Madagascar on food security, agriculture, and livestock and on the population of the Southern region.</i></b></p> <ul style="list-style-type: none"> <li>• To achieve the vision of Madagascar becoming a major regional rice exporter will require a major change in posture towards public investments in roads, water management, research, and extension, including better market information at the farm gate, and support for farmer organizations to mobilize collective action.</li> <li>• Smallholder productivity, poverty, and connectivity are closely related, and need to be addressed concurrently.</li> <li>• Remoteness negatively affects smallholder production choices and market outcomes. Agglomeration and market depth are most closely associated with positive market outcomes.</li> <li>• Climate and weather risks increasingly affect smallholders; improved risk management strategies need mainstreaming.</li> <li>• Both small and large farms need access to operational finance, but smallholders face barriers.</li> <li>• Smallholders face greater difficulty than larger farms in branding their product to access premiums for quality and reliability.</li> <li>• Improved safety nets are key components of any agricultural development strategy</li> </ul> <p><b>Policy Implications:</b></p> <ul style="list-style-type: none"> <li>• Enhance availability of diversification (on-farm and off-farm) activities in rural areas</li> <li>• Promote PPPs and vertical coordination on high value products</li> <li>• Support research, extension, and technical assistance targeting smallholders to improve farming techniques</li> <li>• Enhance public service delivery to improve quality of products; promote adoption of quality labels</li> <li>• Level the playing field and create an enabling environment that promotes competition and remove information asymmetries; support horizontal coordination; improve smallholders’ access to markets and information</li> <li>• Creating an enabling environment that encourages the provision of high quality and certified inputs by private firms and revisiting regulations related to input trade</li> <li>• De-risk investments and improve access to finance for value chain actors.</li> <li>• Updating statistical systems and strengthen sector data management</li> </ul>





	<ul style="list-style-type: none"> <li>• Support agriculture research and innovation</li> </ul> <p>Specific to rice:</p> <ul style="list-style-type: none"> <li>• Promoting collective storing and marketing rice via Pos</li> <li>• Promoting PPPs in the input supply and post-harvest areas</li> <li>• Revisit policy on rice imports to reduce imports of low-quality rice during the domestic marketing season</li> <li>• End ad hoc imports of rice from the Government</li> <li>• Strengthen public rice extension services</li> <li>• Improve smallholders’ access to market and information (agro-advisory, prices).</li> </ul> <p><b>P168000 - Unlocking the Potential of Small and Medium Irrigation Schemes in Madagascar</b></p> <ul style="list-style-type: none"> <li>• From an economic point of view under the current circumstances (rice price, etc.), the rehabilitation of existing irrigation infrastructure offers better ROI than building new irrigation schemes.</li> <li>• Supportive legal, regulatory, and institutional measures are critical for ensuring the sustainability of all irrigation investments in the long term</li> </ul> <p><b>Policy Implications:</b></p> <ul style="list-style-type: none"> <li>• Invest in irrigation rehabilitation to improve national rice production and accompany with a complementary package of selected rice intensification measures.</li> <li>• Drafting of legal and regulatory framework specific to Water Users Associations (WUA) and capacity building of WUA</li> </ul>
	<p>Strengthening Social Resilience in Southern Madagascar(P164034)</p> <p><b>Policy Implications:</b></p> <ul style="list-style-type: none"> <li>• Transition from punctual and local humanitarian interventions to regional and inclusive development</li> <li>• Shift from the tradition of household-level targeting, to create broader buy in and acceptance of distribution on the commune level</li> <li>• Need for multi-sectoral approaches anchored in strong local development programming that focuses on responsive local governance, social inclusion and cohesion to address drivers of fragility.</li> <li>• Development Response and program design in the south will need to be tailored to the needs of the beneficiaries especially women and youth (girls and boys) as they faced different types of vulnerabilities that require different types of programming.</li> </ul>
	<p><u>Business Climate:</u></p> <p><a href="#">Business Licensing Reforms Analysis in Madagascar</a> (under joint IFC-WB Investment Climate Reform Program):</p>



	<ul style="list-style-type: none"><li>- Failure to comply with the provisions prescribed in the texts, particularly with regards to the processing time due to: (i) the operator's lack of knowledge of the texts aggravated by the lack of information public on the procedures to be followed for the issuance of licenses, or ii) lack of resources within the Administration (budget, workforce, work tools, etc.) that do not allow for the respect of the deadlines prescribed by the texts.</li><li>- Obsolescence of the current legal texts which do no longer reflect reality.</li><li>- Procedures and required supporting documents are cumbersome</li><li>- Lack of transparency, information and communication on the required procedures and supporting documents</li><li>- Ineffective decentralization of procedures particularly when the request is initiated in the regions mainly because of: (i) additional and redundant file instructions by administrative officers in the Capital City; (ii) fail streamlining of the process; (iii) the delay between the sending and the reception of documents</li><li>- Important risk of corruption racketeering and favoritism, particularly for larger projects</li><li>- Lack or inexistent of ex-post control, leading to: (i) non-compliance with the commitments made by the operator in connection with its license, (ii) non-application of sanctions even in case of infringement, making a license inefficient and ineffective.</li></ul> <p><b>Policy Implications:</b></p> <ul style="list-style-type: none"><li>- Review and update the legal bases governing each license, particularly with regards to the processing time, required documents, and costs</li><li>- Dematerialization of business licensing</li><li>- Formalize, clarify, and reinforce communication over business licensing procedures</li><li>- Set up a grievance mechanism</li><li>- Applying the principle of subsidiarity to the procedures for the examination of applications and for the delegation of signatures.</li></ul> <p><i>Politique et Promotion des Investissements à Madagascar – Harmonisation du cadre légal des investissements (under joint IFC-WB Investment Climate Reform Program):</i></p> <ul style="list-style-type: none"><li>- Unrealized potential for attracting FDI</li><li>- Investments are governed by a multiplicity of texts whose fields of application are not always well-defined. This makes the framework more complex, less transparent and can create confusion for a foreign investor.</li><li>- Legal texts are not always applied or only partially applied, due to the absence of implementing decrees or heavy bureaucracy</li><li>- The institutional framework is fragmented, and mandates are overlapping</li></ul> <p><i>Améliorer les structures de coordination et de mise en œuvre des réformes de l'environnement des affaires (under joint IFC-WB Investment Climate Reform Program):</i></p> <ul style="list-style-type: none"><li>- The results obtained in improving the business environment remain relatively modest with still limited tangible impacts for the private sector.</li><li>- the multiplicity of actors and specialized institutions as well as the different supervisory bodies make it difficult to coordinate initiatives properly</li><li>- Lack of adequate decision-making and arbitration mechanism</li></ul>
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	<p>-The coherence and ambition of the long-term strategy should be strengthened.</p> <ul style="list-style-type: none"> <li>- A multitude of benchmarks and indicators prevent prioritization</li> <li>- A lack of project management logic and m results monitoring and a working methodology not formalized</li> <li>- The private sector must take a more active role in the reform process.</li> </ul> <p><b>Policy implications:</b></p> <ul style="list-style-type: none"> <li>- Improve transparency and communication</li> <li>- Review of the structure and the amount of some of the fees. It will reduce the cost of transaction and improve the competitiveness of exports and at the same time decrease the price of imported goods on the domestic market.</li> <li>- Digitalizing payment for all fees and charges, which will improve export and import procedures by reducing the time spent for cash payment.</li> </ul> <p><u>Trade policy:</u></p> <p><b>WTO Trade Facilitation Agreement – Madagascar Validation and Reform Map, Trade Facilitation Support Program</b> (under joint IFC-WB Investment Climate Reform Program)s: Matching points and reforms (eventually at the time) were established for Madagascar to align with the TFA framework, requirement-by-requirement, mapping stakeholders and key entities as well as corresponding points in the Malagasy legal framework. For a detailed context of TFA article 10.4 (Single Window) in particular, a detailed <b>review of export and import authorization processes of government agencies</b> had been produced (alongside a summary correspondence matrix with recommendations on automation, especially regarding exports. A very slight update of this correspondence matrix was produced in view of updating the National Trade Facilitation Committee’s (established in the lines of TFA article 23.2) roadmap. It showed the on-boarding of the African Development Bank as an additional development partner, in setting up the Trade Information Portal and Border Risk Management, as well as the European Union’s, who financed a SADC study on Border Agency Cooperation (TFA article 8).</p> <p><b>Fees and charges imposed on exports and imports Madagascar</b> (under joint IFC-WB Investment Climate Reform Program):</p> <ul style="list-style-type: none"> <li>-This study aims to establish an accurate and up-to-date picture of fees and charges levied in connection with imports and exports in Madagascar and the legal and regulatory basis for the imposition of such fees and charges</li> <li>- Transparency and publication : Most of the fees and charges levied in connection with imports and exports are based on the legal framework.</li> <li>- The amount of the fees and charges are variable depending on the products and on the agencies. Some of them are Ad Valorem, which is inconsistent with the TFA (Article 6) and GATT(Article II and VII) provisions.</li> <li>- The means of payment : Most of the payment is done by cash at the agencies, even if the submission of the certificate or authorization is computerized through MIDAC.</li> </ul> <p><u>Competition:</u></p> <p><b>Madagascar: barriers to competition and market dynamics along the vanilla value chain</b> (background papers):</p>
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	<p>Main barriers to competition along the vanilla value chain include:</p> <ul style="list-style-type: none"><li>- De jure government interventions that restrict competition: Regulated campaign dates; Ban on vacuum packing of vanilla, Implication in the registration of producers, collectors and preparators; Regulated market for green vanilla; restrictive requirements for collectors; Minimum capacity regulation; Required authorization for transport of vanilla ; cumbersome export license requirements</li><li>- De facto advantages provided to certain (connected) players translated into discriminatory enforcement of government interventions</li><li>- Lack of enforcement of competition law</li></ul> <p><b>Madagascar: barriers to competition and market dynamics along the lychee value chain</b> (Background papers):</p> <ul style="list-style-type: none"><li>- De jure government interventions that restrict competition: unclear and restrictive licensing procedures; Quantity restrictions; ban on sea exports of early harvests (lychees); reference price for non-EU exports; Reference prices for non-EU export ; fixed harvest dates</li><li>- De facto advantages provided to certain (connected) players: potential discretion in decisions to license exporters; limited access to Toamasina Port; lack of tender procedures for importers;</li><li>- Lack of enforcement of the competition law: price fixing</li></ul> <p>Tourism:</p> <p><b>Tourism trends in Indian Ocean countries and Mozambique</b> (P168299)</p> <p>Analytical work conducted by the World Bank in 2019 (“Tourism Trends in Indian Ocean Countries and Mozambique ASA”) explored limited air connectivity as a key constraint to tourism sector investment and growth in Madagascar and the Indian Ocean subregion.</p> <p>The ASA drew on international expertise and promoted sectoral knowledge sharing across the Sub-Saharan Africa region. For Madagascar, the ASA facilitated sectoral PPD and built sector capacity around improving air connectivity, with a focus on approaches to attracting airline investment in the country and expanding the route network.</p> <p>The ASA pointed to limited air access, including limited direct long-haul connectivity, high prices, low reliability and poor airport infrastructure, as a key constraint to investment and growth in Madagascar’s tourism sector, particularly when benchmarked with regional competitor destinations. The poor road network, limited tourism infrastructure and poor access to sanitation were identified as additional key constraints, demonstrating the need for increased complementary public investment to enable private investment and growth.</p> <p><b>Policy implications:</b></p> <ul style="list-style-type: none"><li>- Opening markets through pro-competition sector regulation</li><li>- Implementing competitive neutrality and promoting a level playing field</li><li>- Ensuring effective competition law enforcement</li><li>- Opening markets through pro-competition sector regulation</li><li>- Implementing competitive neutrality and promoting a level playing field</li><li>- Ensuring effective competition law enforcement</li></ul>
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	Key recommendations included the use of large-scale air traffic and market intelligence datasets to inform decision-making around engaging with airlines, promoting related investment and allocating tourism promotion resources.
<p><u>improve service delivery</u></p> <ul style="list-style-type: none"> <li>• Educational access and outcomes</li> <li>• Skills acquisition</li> <li>• Health, including maternal and child health</li> <li>• Nutrition</li> <li>• Infrastructure and connectivity – transport, water, sanitation, energy, broadband</li> </ul>	<p><b>Achieved:</b></p> <p>- <b>Education Service Delivery in Madagascar, 2016</b></p> <p>The report highlighted the weak performance of the education system at the school level: poor performance of students and teachers in French, high absenteeism of teachers (40%), high absenteeism of school principals (38%), poor learning environment (school infrastructure, learning materials)</p> <p>-<b>Expansion of the lower secondary education, 2020</b></p> <p>Expanding lower secondary requires a very minimum standard; the study recommends to pragmatically consider the options to deliver reading skills and science skills through pedagogic strategies that do not involve costly construction such school libraries and traditional laboratories, and adapt the norms for construction to a minimum package that focuses on classrooms, sanitation, and low-cost offices and teacher rooms. It also recommends developing a planning tool for teacher management along with school mapping. Another recommendation is to initiate and regulate strategies for the recruitment of FRAM teachers that are used at the primary level and extend them to the lower secondary level. Parents’ associations would not be authorized to recruit community teachers without authorization from the ministry, and recruitment would be based on specific qualification criteria and dependent on the passing of an entrance test.</p> <p>- <b>In progress:</b></p> <p>- Service Delivery Indicators Survey, 2021</p> <p>- Assessment on COVID-19 pandemic impact on students in grade 5.</p> <p><b>Policy Implications:</b></p> <p>- Data and recommendations from the SDI provided key elements to the Government to develop the Education Sector Plan (ESP). The objective of the ESP is the improvement of access, learning and governance through the implementation of the reforms including: new school calendar, the introduction of the 6th year of primary education, and the introduction of Malagasy as a teaching language in the first basic education sub-cycle</p> <p>- Also, the national teacher policy has been developed in 2018: it recognizes issues in teacher management and recommends a comprehensive reform on the management of the teaching profession. In the short run, the policy documents call for the introduction of teacher standards, and the need for quality control measures for recruiting teachers into classrooms. In the long run, the Government suggests reforming broader aspects of teachers’ careers including probation, promotion, training, and evaluation. In time, these changes will improve education services offered to Malagasy children.</p>
	<p><b>Health:</b></p> <p>ASA P164662 Universal Health Coverage (closed December 2020)</p> <p><b>Policy Implications:</b></p> <p>Highlighted low investment in health and primary health care. Major PFM bottlenecks.</p>



	<p><b>WASH:</b></p> <ul style="list-style-type: none"> <li>- Urban sanitation master plans have been developed and adopted for 8 secondary cities (financed by AfDB) and Antananarivo (financed by AFD).</li> <li>- An urban water project (JIRAMA WATER III) has been prepared for 65 MEuros (co-financed by EIB/EU) to support water investments in Antananarivo. No impact yet as just effective.</li> <li>- Ministry of Water, Sanitation and Hygiene (MEAH) elaborated and adopted a national WASH policy (Politique nationale de l’eau, de l’assainissement et de l’hygiène - PNEAH) to define the sustainable development of the WASH sector in Madagascar.</li> <li>- The WB via the PIC project financed water investments(around 5 MUSD) in Tuléar to improve access to water in this town.</li> <li>- The WB prepared a project (MIONJO) to be implemented in the Deep South, with a 20 MUSD water component. No impact yet as just effective.</li> <li>- UNICEF financed for around 5 MUSD works rehabilitation for a water pipeline in the Deep South, and supported MEAH to implement a PPP to Operate and Maintain these facilities.</li> <li>- JIRAMA (the national water and energy urban utility) financed an emergency works program to increase the water production for Tana (extension of a water treatment Plant, and few boreholes with local treatment) – works are going, additional daily production estimated at 64,000 m3, to fill the estimated gap of 100,000 m3/d.</li> </ul> <p><b>Policy Implications:</b> The objective remains relevant as the water and sanitation sector suffers from low access rate to water and sanitation services. The sector suffered from lack of investments.</p>
	<p><b>Transport</b></p> <ul style="list-style-type: none"> <li>• <b>Madagascar: Spatial Analysis of Transport Connectivity and Growth Potential (P163751)</b> finalized in May 2018</li> <li>• <b>Madagascar: Spatial Analysis of Antananarivo – Transport Access, Poverty and Jobs (P167707)</b> finalized in April 2019</li> <li>• <b>Policy dialogue under IO – Pre-F/S (in progress): Improving Urban Transport in Greater Antananarivo.</b> The consulting service aims at carrying out technical, legal and financial due diligence to improve public transport services in Antananarivo, especially in two transport subsectors: urban bus and urban passenger railway.</li> </ul>
<ul style="list-style-type: none"> <li>• Build resilience and upgrade natural resource management</li> <li>• Social protection</li> <li>• Mining, fisheries,</li> </ul>	<p><u>Urban resilience:</u> <b>ASA Madagascar Urban Land Management</b> &gt; Better urban land management especially when formalizing and securing occupancy to enhance urban resilience of the city and the poor <b>ASA Madagascar Urbanization Review</b> &gt; Deliver by October 2021</p> <p><u>DRM:</u> The South West Indian Ocean Risk Assessment and Financing Initiative (SWIO-RAFI) was completed in 2017. It includes a catastrophe risk profile for Madagascar, based on</p>



<p>forestry and coastal management</p> <ul style="list-style-type: none"> <li>• Climate adaptation</li> <li>• Disaster risk management</li> </ul>	<p>probabilistic risk modelling. The analysis suggests that, on average, Madagascar experiences over US\$100 million in combined direct losses from earthquakes, floods, and tropical cyclones each year. However, a severe tropical cyclone can produce significantly larger losses. For example, the results suggest that a 100-year return period tropical cyclone event would produce direct losses of \$810 million and require approximately \$190 million in emergency costs.</p> <p>Tropical cyclones are by far the most significant risk in this study, causing approximately 85 percent of the average annual loss due to all three perils. Flooding is the next largest risk, accounting for nearly 13 percent.</p> <p><b>Policy Implications:</b></p> <ul style="list-style-type: none"> <li>• Urban land management reforms</li> <li>• Fisheries: there has been some progress in managing local fisheries, in three areas. Fishing licenses are seemingly made haphazardly without data, permits are increased without assessing the sustainability. The ability to monitor fisheries and apply laws/rules is limited by lack of surveillance vessels that have not paid arrears on the internet, lack of planning and lack of deployment of enforcement officers to local areas. Inequalities in the application of small scale and large scale fishing rules/limits have created tensions.</li> <li>• There is some progress in reaching out to productive forestry to allow legal operators and nascent efforts to increase forest governance. National efforts/program for reforestation is important for public awareness raising are in line with positive initiatives such as REDD+. However efforts need to be improved in providing benefits to local communities.</li> </ul>
	<p><b>Social protection:</b></p> <ul style="list-style-type: none"> <li>– Evidence for Building Madagascar’s Social Safety Net (P167768) - closed</li> <li>– Building Nutrition Sensitive Safety Nets (P158839) – closed</li> <li>– Strengthening social resilience in Southern Madagascar (P164034) - closed</li> <li>– Enhancing the role of social protection (P172037) (Coordination and endline) - active</li> <li>– Madagascar social safety net project: impact evaluation of a behavioral approach to improve outcomes in early childhood (P162747) – active</li> </ul> <p>Main conclusions:</p> <ul style="list-style-type: none"> <li>– These ASA were/are instrumental in consolidating and promoting social safety net measures especially on the approach to improve Human Development, Economic Inclusion objectives for poor and vulnerable groups, and resource management;</li> <li>– These ASA have shown the importance of the coordination and collaboration among social safety nets with other sectors such as education, health, nutrition, agriculture, and disaster risk management.</li> <li>– ASA P158839 helped build upon the lessons learned from successes of the Productive Safety Net Program for community resource management, such as</li> </ul>



	<p>the establishment of small composting, cultivation terracing, peanut culture, basket compost, sweet potato culture, beekeeping.</p> <p><b>Policy Implications:</b></p> <p>Policy implications from the ASA program are under constant discussion with the Government and partners. Key areas include:</p> <ul style="list-style-type: none"><li>• Strengthening the role of social protection in disaster risk management</li><li>• Financing and scaling up of the social safety net</li><li>• Improved coordination among partners and harmonization of approaches, through the Cash Working Group, and especially in crisis situations (South, COVID-19)</li><li>• A dynamic social protection system, with beneficiary exit strategies</li><li>• The evolution from beneficiary registry to a broader social registry in collaboration with national ID initiatives</li><li>• Digitalization of social protection delivery systems and payment mechanisms</li></ul>
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Annex 3: Data and knowledge gaps

1. This Systematic Country Diagnostic Update has gathered and synthesized a large amount of evidence on priority policy intervention areas for alleviating persistent binding constraints to poverty reducing growth in Madagascar. However, several important data and knowledge gaps remain. These gaps can be viewed as a set of future research and technical assistance priorities for government, development partners, academics, and research institutions over the next few years.
2. Among the data gaps, we note the following efforts that could be supported by both the government and donors:
  - Updated household survey: Last data available are from the 2012 MDG survey. In 2020, a 12-month household survey was initiated but stopped by the covid-19 outbreak. The preparation of a new household survey is ongoing and should be completed by April 2022.
  - Updated enterprise survey: Last data available are from the 2013 enterprise survey. A new survey is in preparation with the FCI team.
  - Labor market survey: Last labor survey was in 2015 and last labor and informal sector survey was in 2012.
  - General Census of Agriculture and Livestock: The last one dates from 2004/2005. A new one is in preparation.
  - Updated CPI: The last IPC is based on 2015 year and using weight from the 2012 SDG survey.
  - Improved administrative data on education, health and civil registration. A diagnosis of sectoral statistics in 2017/2018 revealed many weaknesses.
  - Adapted national accounts to the latest international methodological standards: The current national account system is using 2007 as a base year with 1993 System of National Accounts.
  - Input/Output tables and social accounting matrix: The last one dates from 1999.
3. As for the knowledge gaps, we note the following potential future areas of research and technical assistance:

Macroeconomic policy and governance	Evaluation of fiscal decentralization challenges to determine the extent to which growth and poverty reduction can be supported by local government financing
Agriculture, nutrition, and environment	Madagascar’s natural capital is its key asset for its large ecotourism industry. However, the high poverty rate is putting pressures on forestry resources with far-reaching implications. To design better policies, it is important to uncover the links between deforestation, and changes in land use, agricultural growth, and poverty reduction. Given the interdependency of agriculture, forestry, and poverty, exploring value chain approaches that take into account the natural, social and human capital should be encouraged.
	Access to finance is rather limited in the agricultural sector. This is expected given the relatively high vulnerability of agriculture to shocks. One way to circumvent this limitation is by introducing non-conventional agricultural financing tools such as warehouse receipt systems (WRS). However, the merit of WRS in addressing access to finance in agriculture can also be limited to only large farmers. It is therefore important to assess its viability to help smallholder access to finance in Madagascar.
	The relatively high vulnerability of Madagascar’s agriculture to shocks has made risk management quintessential. However, not all risk management tools may be adequate



	<p>for Madagascar. It is important to determine the best risk management tools that will improve the resilience of the agricultural sector.</p> <p>The agriculture sector’s inability to make a strong contribution to poverty reduction is due to many factors, including low resilience to shocks, limited market access, low uptake of modern production technologies (embodied in inputs), low labor productivity, low irrigation use, and land degradation. But what is lacking is a good understanding of the conditions under which these factors could make agriculture growth effective in reducing poverty.</p>
Extractive	Between 2013 and 2019, we argued that the Malagasy economy mostly grew partially due to large mining investment and some large public works. However, the direct and indirect impacts of mining activities on poverty is unclear and worth researching as the share of mining in the economy is expected to grow.
Informality	There is very little information on the informal sector of the economy outside subsistence agriculture. It will be important to analyze informal economy dynamics and the extent to which it is a nuisance to the growth of the economy.
Education and skills development	The impact of the recent abolishment of school fees to promote universal education on fiscal space needs to be further understood to determine ways to make the program sustainable.
	Limited human capital has been identified as a binding constraint to growth, however, a number of knowledge gaps need to be addressed in order to develop salient policy interventions.
	Identification of labor-market relevant skills and the gap between those skills and the ones being taught in educational centers in Madagascar
	But we did not discuss indicators such as skill shortage and its contribution to the low private investment. A better measure of skill shortage is the skills premium that employers are willing to offer in specific industries. To do such an analysis we should combine a strong labor-force survey on labor demand with government data.
Social Protection	A number of policy priorities are being implemented to help mitigate the ongoing humanitarian crises in the South. However, these interventions do not seem to be informed by evidence. Given the reoccurring nature of shocks in the South of Madagascar, it is important to know the effectiveness of food security interventions to better prioritize future efforts and build resilience. This analysis ought to be coupled with political economy analysis to better understand the drivers of limited public investment historically allocated to the South.
	Poverty in Madagascar has traditionally been fought with traditional safety net programs such as cash transfers which have now become ubiquitous. However, the persistent and multifaceted nature of poverty in Madagascar requires actions to address poverty from different fronts. Evidence shows that “big push” interventions that aimed to address the many challenges of poverty simultaneously are best able to sustainably boost livelihoods, income, and health. Considering applying the ultra-poor graduation approach which embeds a big push model could be considered in Madagascar.



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