

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA46022

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|---|---|
| Project Name | Madagascar Agriculture Rural Growth and Land Management Project (P151469) |
| Region | AFRICA |
| Country | Madagascar |
| Sector(s) | General agriculture, fishing and forestry sector (70%), Agro-industry, marketing, and trade (30%) |
| Theme(s) | Rural services and infrastructure (40%), Land administration and management (30%), Rural policies and institutions (30%) |
| Lending Instrument | Investment Project Financing |
| Project ID | P151469 |
| Borrower(s) | Gouvernement of Madagascar |
| Implementing Agency | MINISTERE DE L' AGRICULTURE |
| Environmental Category | B-Partial Assessment |
| Date PID Prepared/Updated | 13-Jan-2016 |
| Date PID Approved/Disclosed | 15-Jan-2016 |
| Estimated Date of Appraisal Completion | 12-Jan-2016 |
| Estimated Date of Board Approval | 22-Mar-2016 |
| Appraisal Review Decision (from Decision Note) | <p>The following main decisions were made:</p> <ol style="list-style-type: none"> 1. The funding envelope for the proposed operation has been increased by US\$3 million, which brings the total project amount to US\$53 million. The additional US\$3 million will cover an expanded loan guarantee fund under Component 1 of the project. 2. Upon finalization of the Appraisal package, clearance and disclosure of the safeguards studies, the team was authorized to conclude Appraisal by communicating the final developments in project design and funding to the Client, and proceed with preparing for Negotiations scheduled for late January 2016. |

I. Project Context

Country Context

1. Madagascar is one of the poorest countries in the world. Extreme poverty has increased from 77.5 percent in 2001 to 78.2 percent of the population in 2012. Over the same timeframe, absolute poverty (US\$2 per capita per day) rose from an estimated 88.9 in 2001 to 91.20 percent of

the population in 2012 (World Bank, 2015). Poverty is significantly higher in rural areas where close to 80 percent of Madagascar's population lives. Development indicators for rural areas lag behind those for urban areas: incomes are lower, infant mortality rates are higher, life expectancy is shorter, illiteracy is more widespread, malnutrition is more prevalent, and greater proportions of people lack access to clean water and improved sanitation services. Extreme poverty incidence is higher among female-headed households, which constitutes about a fifth of all households.

2. Madagascar is emerging from a five year long political and economic crisis, caused in part by the mismanagement of rural lands. Madagascar returned to constitutional order when a duly-elected government took office in 2014. The crisis had devastating effects on the economy, poverty and social outcomes. Nevertheless some progress has been made: a new National Development Plan (NDP) (2015-2019) and its implementation strategy were developed; efforts were made to reorient public expenditure towards social spending and public investments in the last two State budgets adopted by the Parliament (supplemental budget for 2014 and the budget law 2015); and the constitutionally-mandated local elections were held peacefully in July 2015. The country has, however, encountered difficulties in moving ahead in unison to implement the new development strategy and most of the urgent reforms have yet to be implemented fully. The speed of the turnaround, while slow, is perhaps to be expected, as the last crisis was particularly long and traumatic, even for a country prone to political instability.

3. Madagascar's investment climate remains unfavorable. As measured by "The World Bank Doing Business Indicators", it currently ranks 163 out of 189 countries. In the agribusiness sector, private sector participation is constrained by insufficient investments in agricultural technology availability and adoption, human capacity development, regulatory enforcement, and industry-specific conduct and governance issues. Addressing these constraints in key sub-sectors, or value chains, would make an important contribution to the overall improvement of the investment climate in the agriculture sector.

4. With increased unpredictability and severity, floods and droughts frequently disrupt agricultural production and livelihoods in Madagascar. A priority recognized by most stakeholders in the sector is to enhance resilience to the effects of climate change that will increasingly introduce volatility in weather patterns resulting in variable rainfall, floods, and droughts. Promotion of climate-smart agriculture should form an integral part of agriculture development, including this project, by which the adoption of practices and technology adaptation are supported for specific commodities and agro-ecological zones with an emphasis on promoting climate-smart agricultural management practices which are gender-responsive and improve labor-efficiency.

5. Malnutrition rates are high in Madagascar. Only a minority of farmers produce fruits and vegetables and many lack cash to diversify their diet. On a national scale 53 percent of rural households consume limited or insufficient nutritious foods to maintain an active and healthy life. About a quarter of the population is undernourished (up from about 20 percent in the 1990s), implying that their food intake regularly provides less than their dietary energy requirements. Almost half of children under five suffer from stunted growth, representing 1.6 million children who never reach their full physical and mental potential. Households that are food insecure typically have less access to land, leading to production levels 2.5 times lower than households which are considered food secure; also low farm productivity has been identified as a leading cause of poverty and food insecurity in Madagascar. There is a need to support nutrition education to increase knowledge and incentives to translate gains in agricultural production and income into

nutrition improvements, and to improve households' access to a diverse diet through supporting diversification of on-farm production.

Sectoral and institutional Context

6. Agriculture involves directly or indirectly 80 percent of the population, provides the bulk of the diet in rural and urban areas, and employs the largest share of the labor force. Agriculture has also been the sector least affected by temporary political shocks and has become the main source of labor income (World Bank, 2014). The agriculture sector was the main driver in employment growth during the 2000s, contributing more than 85 percent of employment growth. At the same time, productivity in the sector is structurally low. Labor market outcomes suggest that women's earnings are not as high as those of men when controlling for various other factors. Compared to the national average, female-headed households cultivate on average smaller plots. As a consequence, female-headed households' average agricultural revenue is about 43 percent less than male-headed households and incidents of poverty are higher there.

7. Since 1960, value added per capita in agriculture has fallen by an average of 1 percent per year, with poor performance recorded in both the crops and livestock sub-sectors (Figure 1). Food production gains have not kept pace with population growth, resulting in rising food imports and declining levels of national food self-sufficiency. Because the agricultural sector has grown so slowly and put a limit on labor requirements, it has not been able to absorb many of the 450,000 urban and rural young adults who enter the work force every year, swelling the ranks of the jobless and increasing pressure on government to create attractive employment opportunities.

8. The existence of a wide variety of agribusiness value chains offers an opportunity for accelerated rural growth that can be supported as part of the Bank's post-crisis turnaround strategy for Madagascar. The development of the agriculture sector is a priority – it has the potential to lift a large portion of the rural population out of poverty. Strengthening agriculture has always been at the heart of the policies for rural development, but the investment budget of the Malagasy State – one of the lowest in the world with about \$20 per capita per year in 2000 (World Bank, 2013) – is severely limited. Public investment should be combined with private investment to deliver long-lasting results on growth and poverty reduction. The Government's vision for Madagascar's agriculture sector is to provide food and nutrition security at household and national levels, adequate incomes for rural households, and non-farm employment opportunities through value addition, and is in line with the project's PDO and approach.

9. With coordinated improvements in technology, productivity, infrastructure and land management, the farming sector has the potential to better serve domestic as well as export markets with a diversified commodity range, and can be more competitive and resilient to internal and external economic shocks. Value chains with growth potential that involve smallholder producers include spices and essential oils for export markets (cloves, vanilla, pepper, other spices), fruits and vegetables for export markets (lychee, green beans, asparagus), staple crops for the local market (rice, potato, onion), ingredients for animal feed (maize, soya), and livestock (dairy, beef, poultry). The main constraints that prevent these value chains from further developing include: lack of skills and knowledge among agricultural producers, outdated production technology (old varieties, ageing tree stock, and poor husbandry practices), inadequate assembly and marketing capacity among producers and market intermediaries, processing technology limitations, severe rural infrastructure deficiencies, and inadequate public services such as extension, quality assurance, and food safety.

Opportunities for private investment in these value chains exist, but their feasibility requires complementary public investments. Such public investment needs are value chain and area specific, and require careful identification and targeting in an integrated and spatially coordinated way. If well targeted, public investment and value chain development would result in increased farm and non-farm employment and improve overall sustainability. The proposed project combines value chain development, land reform, and infrastructure maintenance and rehabilitation into an integrated approach where project interventions within value chains are demand driven and constitute public investments that are complementary to, and would leverage additional, private investment.

10. The development of the agriculture sector, including large and market-based small scale agriculture, is limited by the actual availability of arable land combined with an inadequate land rights management system. Data suggest that large tracts of arable land would be available (between 70% and 90% of total arable land, depending on the information source) but the reality on the ground suggests stiff competition for access to land rather than its abundance. Moreover, poor land governance and the failure of the traditional land titling system causes widespread tenure insecurity that is not conducive to sustainable agricultural practices or to agricultural investments.

11. In Madagascar, women represent 53 percent of the agricultural population, are responsible for producing 80 percent of food crops and are in charge of nearly 90 percent of agricultural processing activities. While women play an important role in ensuring food security, they are often poorly represented in critical decision making domains such as farmers' organizations. There is increasing evidence that more equal gender relations and equality of assets ownership in the household/ community can lead to better development outcomes. Female-headed households are less likely to own the land they cultivate and more likely to rent it and typically cultivate smaller areas than male headed households. Proposed project activities will thus respond to opportunities for identifying and addressing women's priorities and concerns, improving their land tenure status and access to markets.

12. Despite substantial support to Government from key donors in Madagascar, especially in the aftermath of the 2001 crisis up to 2009, the country's overall road network is in poor condition. The rural road network is dense (more than two-thirds of the total network), financial resources are scarce, and donor support has been mainly oriented to the National Roads network and institutional strengthening at the central level. The outcome of the support to rural roads was limited as it was geared towards all the provinces, resulting in uncoordinated action in geographically scattered areas. The Project will address this key weakness by focusing on specific geographical areas around key agribusiness hubs, and their respective existing and potential rural supply catchment areas.

13. The proposed Project has been designed to support the Government of Madagascar in the implementation of its new national and sector development strategies, particularly the National Development Plan (NDP) (2015-2019) and the Agricultural Sector Policy and Program, i.e. Lettre de Politique Sectorielle Agriculture, Elevage et Pêche (LPAEP) 2015 and Programme Sectoriel Agriculture Elevage Pêche (PSAEP) 2016-2020), which have been developed within the framework of the Comprehensive Africa Agriculture Development Program (CAADP) process.

14. In the NDP, agriculture and fisheries were identified as engines of growth in the infrastructure, tourism and mining sectors. The Project would particularly contribute to the third priority of the NDP which is "inclusive growth and territorial development" based on the following programs:

development of promising value chains by promoting intensive and export-oriented agriculture; structuring of value chains; improvement of land tenure security; private sector development, promotion of Public-Private Partnerships (PPP) schemes; improvement of the legal, regulatory and taxation framework; and access to finance. The LPAEP lays out a 2025 vision for "a country which is relying on a competitive, sustainable and inclusive agricultural sector where both small-scale farms and modern processing units are key actors for food security and key export markets". The project will contribute to the promotion of a rational and sustainable use of natural resources, stimulation of investment in rural infrastructure, strengthening food security and improvement of nutrition, improving access to services and to markets, and improving economic governance.

II. Proposed Development Objectives

The proposed development objective is "to improve rural land tenure security and access to markets of targeted farming households in selected agricultural value chains in project areas, and to provide immediate and effective response to an eligible crisis or emergency".

III. Project Description

Component Name

Component 1. Agribusiness Value Chain Development

Comments (optional)

Component Name

Component 2. Land Policy and Local Land Rights Registration

Comments (optional)

Component Name

Component 3. Marketing Infrastructure Development

Comments (optional)

Component Name

Component 4. Project Management and Coordination

Comments (optional)

Component Name

Component 5. Contingency Emergency Response

Comments (optional)

IV. Financing (in USD Million)

| | | | |
|---------------------------------|-------|-----------------------|---------------|
| Total Project Cost: | 53.00 | Total Bank Financing: | 53.00 |
| Financing Gap: | 0.00 | | |
| For Loans/Credits/Others | | | Amount |
| BORROWER/RECIPIENT | | | 0.00 |

| | |
|---|-------|
| International Development Association (IDA) | 53.00 |
| Total | 53.00 |

V. Implementation

The Ministry of Agriculture will have overall responsibility for project implementation. Other implementing partners include the Ministry of Presidential Projects, specifically the Direction Générale des Services Fonciers, the Land Reform Coordination Unit and the Land Observatory, the Economic Development Board of Madagascar (EDBM), Ministry of Industry and Private Sector Development, Ministry of Livestock and Ministry of Finance.

The project's coordination and management structure will be based on three main bodies: (i) the Project Steering Committee (PSC) (Comité de Pilotage); (ii) the Project Implementation Unit (PIU) at the central level (Agence d'exécution); and (iii) two Regional Implementing Units (Cellules Régionales d'Exécution). The PSC will provide strategic oversight of the project. It will be chaired by the General Secretary of Agriculture or his representative, and include Ministers or representatives of the Ministries of Finance; Presidential Projects, Land Use Planning and Equipment; Industry and Development of the Private Sector; Livestock; Trade; and Civil Society representatives; farmers' organizations; private sector platforms and one representative of the Association des Régions. The PIU based within the Ministry of Agriculture will manage the Project's day-to-day activities, project Monitoring and Evaluation (M&E), and policy dialogue on improved policies for commercial agriculture. The two Regional Implementation Units located in the Highlands (Antsirabe) and in the East Coast (Toamasina) will be in charge of project implementation at the regional level. They will be responsible for supervising project activities in the targeted areas and facilitation of ongoing dialogue with regional authorities.

A Project Implementation Manual (PIM) including a Project Implementation Plan (PIP) will be prepared by the PIU and finalized by project effectiveness. The PIP will include details and guidance on project coordination, management, implementation, monitoring and evaluation, all periodic reporting arrangements and procedures for the establishment and management of a grant system.

VI. Safeguard Policies (including public consultation)

| Safeguard Policies Triggered by the Project | Yes | No |
|--|-----|----|
| Environmental Assessment OP/BP 4.01 | x | |
| Natural Habitats OP/BP 4.04 | | x |
| Forests OP/BP 4.36 | x | |
| Pest Management OP 4.09 | x | |
| Physical Cultural Resources OP/BP 4.11 | x | |
| Indigenous Peoples OP/BP 4.10 | | x |
| Involuntary Resettlement OP/BP 4.12 | x | |
| Safety of Dams OP/BP 4.37 | | x |
| Projects on International Waterways OP/BP 7.50 | | x |
| Projects in Disputed Areas OP/BP 7.60 | | x |

Comments (optional)

VII. Contact point

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