Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No: PAD1090

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

FOR A

PROPOSED CREDIT
IN THE AMOUNT OF SDR 33.8 MILLION
(US$50 MILLION EQUIVALENT)

TO THE

REPUBLIC OF MADAGASCAR

FOR THE

SECOND INTEGRATED GROWTH POLES AND CORRIDOR PROGRAM

NOVEMBER 25, 2014

Trade and Competitiveness Global Practice
AFCS2 – Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective September 30, 2014)

Currency Unit	=	SDR
SDR0,6745	=	US$1
US$1.4826	=	SDR 1
MGA2654.98473	=	US$1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ADAPS	Association pour le Développement de l'Agriculture et du Paysannat du Sambirano
ADEMA	Aéroports de Madagascar
AFD	Agence Française de Développement
AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
APMF	Agence Portuaire Maritime et Fluviale
BIANCO	Bureau Indépendant Anti-Corruption
BOO	Build, Own, Operate
BoP	Bottom of the Pyramid
CAMM	Chambre d'Arbitrage et de Médiation de Madagascar
CAS	Country Assistance Strategy
CCI	Chamber of Commerce and Industry
CGA	Centre de Gestion Agréé
CIRAD	Agricultural Research for Development
CMU	Country Management Unit
CNaPS	Caisse Nationale de Prévoyance Sociale
CB	Capacity Building
CPIA	Country Policy and Institutional Assessment
CRDA	Commission pour la Réforme du Droit des Affaires
CTHT	Centre de Technique Horticole de Tamatave
DBI	Doing Business Indicators
DL	Disbursement Letter
DTIS	Diagnostic Trade Integration Study
EDBM	Economic Development Board of Madagascar
ERR	Economic Rate of Return
EOI	Expression of Interest
ESMF	Environmental and Social Management Framework
EU	European Union
FDL	Fonds de Développement Local
FDI	Foreign Direct Investment
FOFIFA	Le Centre National de Recherche Appliquée au Développement Rural
FY	Financial Year
GDP	Gross Domestic Product
GIS	Geographic Information System
GoM	Government of Madagascar

GP	Global Practice
IC	Investment Climate
ICAO	International Civil Aviation Organization
ICB	International Competitive Bidding
ICT	Information and Communication Technology
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
INSTAT	Institut National de la Statistique de Madagascar
IPF	Investment Project Financing
IPP	Independent Power Producer
IRR	Internal Rate of Return
IS	Investment Services
ISN	Interim Strategy Note
ISO	International Organization for Standardization
IT-BPO	Information Technology-Business Process Outsourcing
JIRAMA	Jira sy Rano Malagasy
KFW	Kreditanstalt für Wiederaufbau
M&E	Monitoring and Evaluation
MBIF	Madagascar Business and Investment Facility
MFI	Micro Finance Institutions
MNP	National Parks of Madagascar
MSME	Micro, Small and Medium-sized Enterprise
MGA	Malagasy Ariary
NGO	Non-Governmental Organization
NPV	Net Present Value
OCAI	Opération Communale d'Appui Intégré
OFID	OPEC Fund for International Development
OM	Operation Manual
ONTM	Madagascar National Tourism Office
OP/BP	Operational Policy/Bank Procedure
OPEC	Organization of the Petroleum Exporting Countries
ORT	Regional Tourism Office
OSS	One Stop Shop
PAD	Project Appraisal Document
PCGS	Partial Credit Guarantee Scheme
PCN	Project Concept Note
PDO	Project Development Objective
PGDI	Governance and Institutional Development Project
PIC1	Madagascar Integrated Growth Poles Project
PIC2	Second Integrated Growth Poles and Corridors Project
PIM	Project Implementation Manual
PIU	Project Implementation Unit
PPD	Public Private Dialogue
PMP	Pest Management Plan
PPP	Public Private Partnership
PPP	Purchasing Power Parity
QCBS	Quality and Cost Based Selection
QMM	QIT Madagascar Minerals
RPF	Resettlement Policy Framework
RN	National Road

SADC	Southern African Development Community
SBD	Standard Bidding Document
SCIM	Société Commerciale et Industrielle de Madagascar
SDR	Special Drawing Rights
SEP	Secretariat Exécutif du Projet Pôle de Croissance
SGS	Syndicat Malgache de l'Agriculture Biologique
SME	Small and Medium-Sized Enterprise
SNFI	National Strategy of Inclusive Finance
SNFR	National Strategy in Rural Finance
SOP	Series of Projects
SPS	Sanitary and Phytosanitary
SYMABIO	Syndicat Malgache de l'Agriculture Biologique
TA	Technical Assistance
VC	Value Chain
TMP	Tourism Master Plan
TVET	Technical and Vocation Education and Training
USC	Use of Country Systems
WBG	World Bank Group
WDR	World Development Report
WTP	Water Treatment Plant
WTTC	World Travel and Tourism Council

Regional Vice President:	Makhtar Diop
Country Director:	Mark R. Lundell
Senior Director:	Anabel Gonzalez
Practice Manager:	Ganesh Rasagam
Task Team Leader:	Michael Olavi Engman

REPUBLIC OF MADAGASCAR: Second Integrated Growth Poles and Corridors Program (SOP-1)

TABLE OF CONTENTS

Page

PAD DATA SHEET

Madagascar

Second Integrated Growth Poles and Corridor Program (P113971)

PROJECT APPRAISAL DOCUMENT

AFRICA

Report No.: PAD1090

.			
Basic Information			
Project ID P113971	EA Category B - Partial Assessment	Team Leader Michael Olavi Engman	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [X] - Fragile States		
	Financial Intermediaries [ ]		
	Series of Projects [X]		
Project Implementation Start Date 18-Dec-2014	Project Implementation End Date 31-Mar-2019		
Expected Effectiveness Date 31-May-2015	Expected Closing Date 30-Sep-2019		
Joint IFC Yes	Joint Level Complementary or Interdependent project requiring active coordination		
Practice Manager/Manager Ganesh Rasagam	Senior Global Practice Director Anabel Gonzalez	Country Director Mark R. Lundell	Regional Vice President Makhtar Diop
.			
Borrower: Republic of Madagascar			
Responsible Agency: National Project Secretariat			
Contact: Eric Rakoto Andriantsilavo		Title: Secretaire Nationale	
Telephone No.: 261-2022-36777		Email: eric.ra@pic.mg	
.			
Project Financing Data(in USD Million)			

[ ]	Loan	[ ]	IDA Grant	[ ]	Guarantee
[X]	Credit	[ ]	Grant	[ ]	Other

Total Project Cost:	50.00	Total Bank Financing:	50.00
Financing Gap:	0.00		

Financing Source	**Amount**
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	50.00
Total	50.00

Expected Disbursements (in USD Million)

Fiscal Year	2014	2015	2016	2017	2018	2019	2020
Annual	1.00	8.00	11.00	12.00	12.00	6.00	0.00
Cumulative	1.00	9.00	20.00	32.00	44.00	50.00	50.00

Institutional Data

Practice Area / Cross Cutting Solution Area

Trade & Competitiveness

Cross Cutting Areas

[ ] Climate Change

[X] Fragile, Conflict & Violence

[ ] Gender

[X] Jobs

[X] Public Private Partnership

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Agriculture, fishing, and forestry	General agriculture, fishing and forestry sector	15		
Public Administration, Law, and Justice	General public administration sector	18		
Transportation	General transportation sector	14		

Water, sanitation and flood protection	Water supply	26		
Industry and trade	Other domestic and international trade	27		
Total		100		

☑ I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

.

Themes

Theme (Maximum 5 and total % must equal 100)

Major theme	Theme	%
Public sector governance	Other public sector governance	7
Financial and private sector development	Infrastructure services for private sector development	38
Financial and private sector development	Micro, Small and Medium Enterprise support	25
Trade and integration	Export development and competitiveness	22
Trade and integration	Technology diffusion	8
Total		100

.

Proposed Development Objective(s)

The Project Development Objective is to contribute to increased economic opportunities and access to enabling infrastructure services, as measured by an increase in jobs and formal firms, in Targeted Regions. The Program objective of the Series of Projects (SOP) is the same as the PDO of this Project.

.

Components

Component Name	**Cost (USD Millions)**
COMPONENT 1: STRENGTHENING THE ENABLING ENVIRONMENT FOR ENTREPRENEURSHIP AND INVESTMENT	11.00
COMPONENT 2: SECTOR BASED GROWTH IN THE ATSIMO-ANDREFANA, ANOSY AND DIANA REGIONS	35.50
COMPONENT 3: PROJECT IMPLEMENTATION, M&E, SAFEGUARDS, IMPACT EVALUATION	3.50

.		
Compliance		
Policy		
Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [X]
.		
Does the project require any waivers of Bank policies?	Yes [ ]	No [X]
Have these been approved by Bank management?	Yes [ ]	No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No [ ]

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**

Legal Covenants

Name	**Recurrent**	**Due Date**	**Frequency**
PIU Staff		31-May-2015	

Description of Covenant

Without limitation to the provisions of paragraph (a) of Schedule 2, Section 1.2 of the Financing Agreement, the PIU shall include, inter alia:

(i) at the central level: (A) a coordinator; (B) a procurement specialist; (C) a financial manager; (D) an accountant; (E) a monitoring and evaluation specialist; (F) an environmental and social safeguard specialist; and (G) an accounts assistant; recruited in accordance with the provisions of Section III of Schedule 2 of the Financing Agreement, and on the basis of terms of reference, qualifications and experience acceptable to the Association.

Name	Recurrent	Due Date	Frequency
External Auditor		31-Aug-2015	

Description of Covenant

In addition, no later than three (3) months after the Effective Date, the Recipient shall recruit an internal auditor in accordance with the provisions of Section III of Schedule 2 of the Financing Agreement, and on the basis of terms of reference, qualifications and experience acceptable to the Association, to be assigned at the central level.

Name	Recurrent	Due Date	Frequency
PIU Staff-Internal Auditor		31-Aug-2015	

Description of Covenant

In addition, no later than three (3) months after the Effective Date, the Recipient shall recruit an internal auditor within the PIU in accordance with the provisions of Section III of Schedule 2 of the Financing Agreement, and on the basis of terms of reference, qualifications and experience acceptable to the Association, to be assigned at the central level.

Name	Recurrent	Due Date	Frequency
PIU Staff-Targeted Regions		30-Nov-2015	

Description of Covenant

In each Targeted Region: No later than six (6) months after the Effective Date, the Recipient shall recruit (x) a coordinator and (y) one (1) account assistant, all in accordance with the provisions of Section III of Schedule 2 of the Financing Agreement, and each on the basis of terms of reference, qualifications and experience acceptable to the Association, to be assigned one in each Targeted Region.

Name	Recurrent	Due Date	Frequency
Investment Climate Reform Committee		31-Aug-2015	

Description of Covenant

No later than three (3) months after the Effective Date, the Recipient shall establish and thereafter maintain a structure satisfactory to the Association to lead and manage the investment climate reform process within the country of the Recipient to be established under the control of the Office of the President, with mandate, composition and resources acceptable to the Association.

Name	Recurrent	Due Date	Frequency
Project Monitoring, Reporting and Evaluation		31-Mar-2016	

Description of Covenant

No later than twelve (12) months after the Effective Date, or such other date agreed with the Association, and each year afterwards, the Recipient shall cause an operational audit for subcomponent 1.2(d) of the Project (or selected activities under said subcomponent) to be carried out by an independent auditor.

Name	Recurrent	Due Date	Frequency
Financial Management, Financial Reports and Audits		18-Sep-2015	
Description of Covenant			
In order to ensure the timely carrying out of the audits referred to in Section II. B.3 of this Schedule, the Recipient shall engage independent auditors for the purpose not later than six (6) months after the Effective Date, in accordance with the provisions of Section III of the Schedule 2 of the Financing Agreement.			

Name	Recurrent	Due Date	Frequency
Investment Climate Reform Committee		31-Aug-2015	
Description of Covenant			
No later than three (3) months after the Effective Date, the Recipient shall establish and thereafter maintain a structure satisfactory to the Association to lead and manage the investment climate reform process within the country of the Recipient to be established under the control of the Office of the President, with mandate, composition and resources acceptable to the Association.			

Name	Recurrent	Due Date	Frequency
Project Monitoring, Reporting and Evaluation		20-Jun-2017	
Description of Covenant			
Twenty-four (24) months after the Effective Date, or at any other date agreed with the Association, the Recipient shall, in conjunction with the Association, carry out a mid-term review of the Project (the "Mid-term Review"), covering the progress achieved in the implementation of the Project.			

Name	Recurrent	Due Date	Frequency
Project Monitoring, Reporting and Evaluation		20-Mar-2017	
Description of Covenant			
The Recipient shall prepare and furnish to the Association not less than three (3) months prior to the beginning of the Mid-term Review, a report integrating the results of the monitoring and evaluation activities performed pursuant to this Agreement, on the progress achieved in the carrying out of the Project during the period preceding the date of such report, and setting out the measures recommended			

Name	Recurrent	Due Date	Frequency
Project Monitoring, Reporting and Evaluation		29-Mar-2019	
Description of Covenant			
For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than six months before the Closing Date.			

Conditions

Source Of Fund	Name	Type
IDA	Project Manuals for the Project	Effectiveness

Description of Condition

The Recipient has revised the PIC1 Project Manuals for the Project, in form and substance acceptable to the Association and the revised manuals include a complaint management system for procurement acceptable to the Association.

Source Of Fund	Name	Type
IDA	Decree	Effectiveness

Description of Condition

The Recipient has adopted the Institutional Decree for the Project, in form and substance acceptable to the Association and established both the Steering Committee and the PIU with mandates, compositions, staff and resources satisfactory to the Association, as further set out in Section I.A of Schedule 2 of the Financial Agreement..

Source Of Fund	Name	Type
IDA	PIU Staff	Effectiveness

Description of Condition

The PIU shall include, *inter alia,* at the central level: (A) a coordinator; (B) a procurement specialist; (C) a financial manager; (D) an accountant; (E) a monitoring and evaluation specialist; (F) an environmental and social safeguard specialist; and (G) an accounts assistant; recruited in accordance with the provisions of Section III of Schedule 2 of the Financing Agreement, and on the basis of terms of reference, qualifications and experience acceptable to the Association.

Source Of Fund	Name	Type
IDA	Withdrawal Conditions	Disbursement

Description of Condition

Under Category 1 unless and until the Association is satisfied, and has notified the Recipient of its satisfaction, that the Recipient has adopted a revised EDBM Decree in form and substance satisfactory to the Association.

Source Of Fund	Name	Type
IDA	Withdrawal Conditions	Disbursement

Description of Condition

Under Category 3 unless and until the Association is satisfied, that all of the following conditions have been met: (i) The Recipient has entered into the Fund Management Agreement in accordance with Section I.B.1 of Schedule 2 of the Financing Agreement; (ii) The Fund Manager has established an investment committee for the review of sub-projects; and (iii) The Recipient has adopted a Matching Grant Manual for the Project, in form & substance acceptable to the Association

Source Of Fund	Name	Type
IDA	Disbursement Condition	Disbursement

Description of Condition

Under Category 4 unless and until the Association is satisfied, and has notified the Recipient of its satisfaction, that all of the following conditions have been met in respect of said activities: (i)The Recipient has entered into an agreement with FDL setting forth FDL's role in the selection and monitoring and evaluation process of Sub-projects financed out of OCAI Grants;

Source Of Fund	Name	Type
IDA	Disbursement Condition	Disbursement

Description of Condition

Under Category 4 unless and until the Association is satisfied, and has notified the Recipient of its satisfaction, that all of the following conditions have been met in respect of said activities: (ii) The Recipient has adopted an OCAI Grant Manual for the Project, in form and substance acceptable to the Association.

Team Composition

Bank Staff

Name	Title	Specialization	Unit
Hajarivony Andriamarofara	E T Consultant	Governance	GGODR
Johanne Buba	Economist	M&E and economic and financial analysis	GTCDR
Joseph Byamugisha	Financial Management Specialist	Financial management	GGODR
Laurent Olivier Corthay	Senior Private Sector Development Specialist	Taxation, commercial justice	GTCDR
Jeffrey John Delmon	Senior Private Sector Development Specialist	PPPs	GCPDR
Aissatou Diallo	Senior Finance Officer	Disbursement	CTRLA
Willem Douw	Senior Operations Officer	Investment promotion	GTCDR
Michael Olavi Engman	Senior Economist	Team Lead	GTCDR
Cemile Hacibeyoglu	Operations Officer	Investment climate reforms	GTCDR
Eneida Fernandes Mateev	Private Sector Development Specialist	Tourism.	GTCDR
Nathalie S. Munzberg	Senior Counsel	Senior Counsel	LEGEN
Irene Marguerite Nnomo Ayinda-Mah	Program Assistant	Program Assistant	GTCDR
Noroarisoa	Sr Transport. Spec.	Transport	GTIDR

Rabefaniraka			
Ellena Rabeson	Operations Officer	Operations	AFMMG
Vonjy Miarintsoa Rakotondramanana	Energy Specialist	Energy	GEEDR
Patrice Joachim Nirina Rakotoniaina	Senior Municipal Engineer	Municipal engineering	GSURR
Sylvain Auguste Rambeloson	Senior Procurement Specialist	Procurement	GGODR
Harisoa Danielle Rasolonjatovo Andriamihamina	Education Spec.	TVET	
Loraine Ronchi	Senior Economist	Agribusiness	GTCDR
Lisa Kristina Stahl	Jr Professional Officer	Finance	GFMDR
Andre Teyssier	Sr Land Administration Specialist	Land administration	GSURR
Rehana Vally	Senior Agribusiness Specialist	Agribusiness	GFADR
Fred Zake	Senior Operations Officer	Investment climate reforms	GTCDR

Non-Bank Staff

Name	Title	City
David A. Phillips	Consultant	Washington DC

.

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments
Madagascar	Atsimo-Andrefana	Toliara		X	
Madagascar	Anosy	Fort Dauphin		X	
Madagascar	Diana	Antsiranana		X	
Madagascar	Analamanga	Antananarivo		X	

I. STRATEGIC CONTEXT

A. Country Context

1. **Madagascar is slowly emerging from a protracted period of economic stagnation.** The Presidential elections in 2013-14 and the international recognition of the newly elected Government of Madagascar (GoM) brought an end to a period of turbulence and led to the normalization of the country's relationship with the International Development Association (IDA). GoM now needs to implement an economic policy agenda that tackles unemployment and strengthens governance that are needed for the country to avoid slipping further into economic decline and fragility. An inclusive, comprehensive and consistently implemented approach to promote private enterprise and investment would likely push the country's growth trajectory back to, or above, the 5 percent level that the country enjoyed leading up to the political crisis.

2. **The unconstitutional change of power in February 2009 disrupted the positive growth trajectory that the country had embarked upon following economic reforms undertaken in the previous decade.** In 2005-08, GDP per capita (PPP, US$) expanded by 25 percent as the tourism sector grew rapidly; a textiles and clothing industry flourished on the back of African Growth and Opportunity Act (AGOA) trade preferences; and two large investments in the mining industry were boosting economic development in Tolagnaro, Ambatovy and Toamasina. In 2009-12, however, GDP per capita declined by 3 percent and it led to an increase in Madagascar's already high poverty rate. With a successful and recognized election outcome, the GoM now intends to support market oriented reforms, promote development programs in the country's poorer regions, strengthen governance at the national and regional level, and improve basic service delivery in order to help return the economy to a higher growth trajectory and lift the population out of poverty.

3. **Two-thirds of the working-age population is out of work or underemployed and the lack of productive opportunities comes at huge economic and social costs.** The collapse in economic activity in 2009 and the stagnation that followed in 2010-13 has led to an increase in underemployment. Formal employment particularly in manufacturing dropped as many firms exited the market or sought protection in the informal sector. The textiles and garment sector dismissed more than 30,000 mostly female workers in 2010. Investments linked to public funding remain in disarray: for example, in 2008-10, public investment fell by 30 percent. Foreign direct investment (FDI) inflows were at historically high levels in 2008-2012 due to Rio Tinto's and Sherritt's mining investments but investments in other sectors have been modest. The agricultural sector which absorbs almost four out of five citizens has been relatively resilient but it continues to depend on weather conditions and subsistence farming.

4. **More than four-fifths of the Malagasy population lives in extreme poverty (<US$1.25 a day) and the ratio of the population living under the poverty line (<US$2 a day) increased by an estimated 10 percentage points in 2008-13.** Madagascar has one of the world's highest rates of extreme poverty with 92 percent of the population living on less than US$2/day (PPP). Nearly 60 percent of the population earns or lives on less than the market price for 2100 calories/day, which is the minimum food intake in poverty estimation models. However, inequality as measured by the Gini coefficient is in the mid-40s, which puts Madagascar near the median both in a global and sub-Saharan African perspective. The political

crisis has pushed many Malagasy back into self-employment and subsistence farming. The great majority of the workforce is self-employed and economically vulnerable. In 2012, an estimated 93 percent of new jobs were in the informal sector and 75 percent of these jobs were based in the tertiary sector. Poverty in rural areas and among farmers is nearly twice as high as in the urban areas.

5. **Improving economic governance and effectiveness of the public-private interface is necessary to rebuild confidence in Madagascar as an investment destination.** Based on the World Bank's Worldwide Governance Indicators, political instability and violence increased since 2007 while voice and accountability, government effectiveness, regulatory quality, rule of law, and control of corruption have all deteriorated since 2008. Madagascar's international ranking of government effectiveness dropped significantly between 2007 and 2012 with indicators on the 'rule of law' suffering in 2007-10 and 'control of corruption' markedly deteriorating in 2011-12. The population's ability to deal with exogenous shocks has been reduced in line with a general deterioration in livelihoods, infrastructure and institutions.

B. Sectoral and Institutional Context

6. **Madagascar will need to develop labor-intensive and export-oriented sectors in which it has a revealed comparative advantage to accelerate economic growth.** Tourism, agribusiness and light manufacturing have particularly good prospects for promoting private investment and job creation in the sub-regions. Strengthening public capacity to facilitate investment in these export-oriented sectors is critical. Boosting entrepreneurship and investment in labor-intensive sectors will require a concerted effort to address binding constraints and market failures in each sector.

7. **Improving the investment climate and the public private interface is essential to regain the confidence of investors—whether small or large; domestic or foreign.** Madagascar ranks low on major benchmarks for the ease of doing business (DBI: 163/189 in 2015) and international competitiveness (Global Competitiveness: 130/144 in 2014). Anecdotal evidence indicates that public administration has weakened and many companies in the regions prefer to operate in the informal economy. Uncompetitive practices in the informal sector, tax administration, access to electricity and land, and political instability are the biggest obstacles to existing businesses according to the World Bank's enterprise surveys (2007/2014).

8. **Regional tourism development holds great potential.** Tourism accounts for 5.4 percent of GDP and the share increases to 14.9 percent when indirect and induced impacts are taken into account. The sector employs 6.5 percent of the country's formal workforce and 12.5 percent if both direct and indirect jobs are counted. However, the 256,000 tourists who visited Madagascar in 2012 are well below potential. The GoM's goal is to attract more than 400,000 tourists towards the end of its mandate period. An improvement in the investment climate, well-coordinated and strategic investments, the upgrading of firms, supply chains and logistics network can yield immediate social benefits. Consultations with international hotel groups and tour operators, and the growth record of tourist arrivals during years of political stability strongly indicate that the tourism sector holds tremendous potential.

9. **Madagascar is an exporter of many agricultural commodities such as cocoa, sugar, cotton and groundnut but the agribusiness sector is operating well below capacity.** In 2008-13, the volume of agriculture and seafood exports increased by 267 percent in the Diana Region, 228 percent in the Atsimo-Andrefana Region, and 57 percent in the Anosy Region.[1] This dynamism and expansion is partly due to the entry of new private investors and entrepreneurs—domestic as well as foreign—who are starting to rejuvenate dilapidated production assets and organize supply chains previously controlled by bankrupt or collapsed state-owned enterprises. From cotton in the southeast to sugar and cocoa in the north, the scope to generate more jobs, better livelihoods, and more foreign exchange is considerable. However, many commercial value chains are impeded by weak coordination and organization of the supply chains; weak capacity of essential support institutions in areas such as quality control, traceability, sanitary and phytosanitary standards and storage facilities; an unsupportive or outdated regulatory environment; and insecurity.

10. **Underinvestment in infrastructure and poor utility services are impeding investment in most urban areas in coastal regions.** The deterioration in road infrastructure has led to high transport costs and many towns and some regions are effectively landlocked. Enterprise surveys highlight that costly and erratic electricity supply is a particularly serious obstacle to businesses. A growing population and rapid urbanization are putting serious strains on water supply, sanitation and solid waste management. Madagascar has a significant infrastructure deficit that the GoM will need to start to bridge in the coming years.

11. **The Madagascar Integrated Growth Poles Project (PIC1, US$165) has demonstrated that an integrated, multi-sector and private sector-led approach to regional development can be effective even in a fragile context.** PIC1 implemented a series of national level investment climate reforms and supported local economic development by implementing parallel interventions to strengthen local governance, improve the enabling environment for investment and entrepreneurship, and upgrade critical infrastructure for productive use in spatially defined sub-regions. The project, which is closing on December 31, 2014, has proven successful in creating jobs and increasing investment in Nosy Be and Tolagnaro.

12. **The Second Madagascar Integrated Growth Poles and Corridors Project (PIC2) will build on the outcomes and lessons learned from the implementation of PIC1.** The new project will support the GoM's National Development Plan and promote inclusive growth in the Anosy, Atsimo-Andrefana and Diana Regions. PIC2 will oversee a geographical expansion from Nosy Be within the existing PIC1 to also include the Ambanja, Ambilobe and Antsiranana I & II Districts along the northern corridor in the Diana Region. Tolagnaro in the Anosy Region will remain the center for the second growth pole but interventions through sector support will expand the geographic reach within this region. A new growth corridor will be added along RN9 in the Atsimo-Andrefana Region to support tourism and agribusiness development, and improve delivery of services in one of Madagascar's poorest regions (see map in Annex 8).[2]

---

[1] In 2013, the value of agribusiness exports from local seaports in these regions reached nearly US$150mn. The total value was greater since regional output was also exported by air freight and from Toamasina Port.

[2] Annex 6 presents a summary of economic centers in Madagascar with focus on how each could fit in with the growth poles approach. Diana, Anosy and Atsimo Andrefana fulfilled the criteria: (i) private sector interest to

13. **Tackling key binding constraints in parallel is necessary to crowd in private investment and promote inclusive growth at the regional level.** In particular, PIC2 will: (a) continue to address legal and regulatory constraints at the national level to improve the enabling environment for private investment and job creation while promoting sector based growth in select regions; (b) establish conditions to attract private investment in infrastructure and basic services delivery; (c) support public institutions and the private sector to plan, design, implement and monitor activities at the regional level; (d) leverage existing partnerships with private investors, business associations and new anchor investors as well as dominant smallholder associations to promote economic linkages; and (e) build lasting institutions to ensure sustainability and good governance.

14. **PIC2 will contribute to a reduction in extreme poverty and promote shared prosperity through four main channels.** The first channel is through targeted skills formation programs that will make poor youth more likely to obtain wage work or generate higher paid self-employment. The second channel is through targeted grants and administrative reforms to support micro entrepreneurs at the rural level. The third channel is through knowledge transfers in commercial agriculture that will increase the income for vulnerable populations. Smallholders often face a range of issues, including inadequate road infrastructure, which impede market access, and poorly organized value chains that do not foster a fair redistribution of benefits among participants. The project will address some of these constraints in the targeted value chains. The fourth channel is through the delivery of more effective services to poor households, including potable water and sanitation. An increase in access to basic services generally leads to a reduced mortality rate and higher workforce productivity.

15. **Several ongoing infrastructure works financed by IDA and other development partners will improve transport and electricity supply in the targeted regions.** The road rehabilitation works of RN 9 funded by the African Development Bank (AfDB) and the OPEC Fund for International Development (OFID); and of RN6, RN12A and RN13 funded by the European Union (EU) and the WBG will reduce transport costs along the targeted growth corridors. IFC Investment Services (IS) is evaluating prospective new agribusiness investments in each of the targeted regions that would offer opportunities to leverage anchor investments to strengthen backward linkages and improve the organization of supply chains. The project will complement IDA-funded projects: (i) the Third Environmental Program has initiated a commercialization process to attract investment linked to natural parks together with Madagascar National Parks (MNP), (ii) the Emergency Infrastructure Preservation and Vulnerability Reduction Project is upgrading 20 km of RN6 and two large bridges outside Ambilobe, (iii) the Governance and Institutional Development Project II has piloted the OCAI model, (iv) the Financial Services Project is supporting the development of the micro finance market in the three regions, (v) the Electricity Sec Operations & Governance Improvement Project will complement OFID-funded regional level support activities in the electricity sector with national level reforms of the electricity sector, (vi) the Investment Climate Reform Program will provide TA and cover WBG staff cost to facilitate implementation of the Investment Climate Reform Program, and

partner with WBG and invest in productive sectors; (ii) clear synergies and complementarities with key donor-funded infrastructure programs; (iii) potential to promote inclusive growth; and (iv) a conducive political economy facilitating a long-term engagement.

(vii) the Madagascar Agriculture Rural Growth and Land Management Project will have a strong land tenure component which will complement PIC2 activities and make agribusiness investments more attractive in Madagascar. While complementary, the Project activities are not directly linked to other donor activities and the proposed PIC2 activities are viable on their own whether or not the activities financed by other development partners materialize.

C. Higher Level Objectives to which the Project Contributes

16. **The integrated, multi-sector approach to tackle job creation and inclusive growth will contribute strongly towards the 'employment and competitiveness' agenda of the Interim Strategy Note (ISN) from FY12 that guides the Association's activities in Madagascar.** The ISN is centered on one foundation: 'governance and public sector capacity'; and two pillars: 'employment and competitiveness' and 'resilience and vulnerability'. It will do so partly by strengthening local governance and public sector capacity in the three identified regions—including two of the poorest regions in Madagascar—as well as selectively on the national level, and by extension help build resilience and reduce vulnerability by improving basic services provision and strengthen value chains in rural areas. The project's objective is also central to the World Bank's Africa Regional Strategy under the theme of inclusive and broad-based growth. In addition, it will build upon the most recent Country Assistance Strategy (CAS) for FY07-11, which aimed to remove bottlenecks to sustainable and shared growth and improved service delivery. Finally, the project is firmly anchored within the GoM's National Development Plan and explicit policy agenda to boost the tourism and agriculture sectors.

II. PROJECT DEVELOPMENT OBJECTIVES

A. Project Development Objective

17. The Project Development Objective is to contribute to increased economic opportunities and access to enabling infrastructure services, as measured by an increase in jobs and formal firms, in Targeted Regions. The Program objective of the Series of Projects (SOP) is the same as the PDO of this Project.

18. PIC2-1 (Phase I) will support economic recovery by improving the investment climate, increasing investor confidence, and restoring economic governance, which will lay the foundation for inclusive growth and shared prosperity in the target regions. PIC2-2 (Phase II) will support economic expansion through private investment in particularly the tourism and agribusiness sectors and increased private participation in shared service delivery.

B. Project Beneficiaries

19. Direct beneficiaries are estimated to exceed 400,000, including: (i) households supported by the project in urban and rural areas through training, grants, improved access to potable water, improved sanitation and more reliable energy; (ii) self-employed smallholders in commercial value chains benefiting from training programs and improved secondary roads; (iii) rural and urban wage workers who are directly engaged in targeted activities and sectors; and (iv) entrepreneurs and investors through a more conducive business environment and lower transaction costs. Benefits are expected to accrue to existing businesses and entrepreneurs since

the project will improve access to markets and finance, reduce transaction costs, improve production techniques, increase access to inputs such as improved seeds and water, and strengthen local governance. The project is also expected to have substantial indirect impact on informal job creation and livelihoods in the targeted areas. In addition, the project will increase labor productivity by improving access to basic services (potable water), health (sanitation and solid waste management), transport (urban roads) and skills (training).

C. PDO Level Results Indicators

20. Achievement of the PDO will be measured by the following indicators:[3]

- **Indicator 1**: Number of formal jobs created in the targeted poles/corridors, of which in Diana Region (of which in tourism), of which in Atsimo-Andrefana Region (of which in tourism), of which in Anosy Region[4];

- **Indicator 2:** Number of formal businesses newly registered in the target poles/corridors, of which in Diana Region, of which in Atsimo-Andrefana Region, of which in Anosy Region;

- **Indicator 3:** Number of beneficiaries (core), of which women (%), of which people provided with access to solid waste collection (core), of which people provided with improved water sources (core).

21. The project is expected to have a significant impact on the informal sector. Thus, the project will capture the intended and unintended impact on the informal sector through household surveys. The intermediate outcome indicators of the project are: (i) Reforms (number), of which IC reforms, of which reforms related to commercial disputes, of which reforms related to tax simplification, (ii) Increase in the number of wage jobs in the targeted corridors and poles (%), of which in Diana Region, of which in Atsimo-Andrefana Region, of which in Anosy Region, of which women (%)[5], (iii) Annual Municipal revenues collected in the targeted poles (MGA million), of which in Diana Region, of which in Atsimo-Andrefana Region, of which in Anosy Region, (iv) Roads rehabilitated (km), of which rural, of which non-rural, (v) Passenger traffic, including tourists by air and sea per annum in targeted poles (number), of which in the Diana Region, of which in the Atsimo-Andrefana Region, (vi) Hotel rooms for establishments in the targeted poles (number), of which in Diana Region, of which in Atsimo-Andrefana Region, (vii) Export value for the selected crops in the targeted poles (US$ million), of which in the Diana Region (cocoa, cashew, ylang ylang), of which in the Atsimo-Andrefana Region (cotton, sea cucumber), (viii) Increase in revenues from target cash crop production for

[3] The Caisse Nationale de Prévoyance Sociale (CNaPS) captures formal employment at the regional and sector levels. The Economic Development Board of Madagascar (EDBM) captures business registration at the regional and sector levels. PDO level results indicators were used in PIC1 and the data are readily available and of good quality. More details on the indicators are provided in Annexes 1-2.

[4] Formal jobs here are defined as jobs in enterprises that are formally registered and report to the CNaPS. Registered enterprises answer a questionnaire on a yearly basis whose responses are used to compute the number of jobs.

[5] This encompasses all forms of employment (formal as well as informal). Defined as whether during the past 7 days, a member of the household has worked on a business enterprise belonging to someone outside the household.

smallholders in the targeted corridors and pole (%), (ix) Local Governance Index in the targeted municipalities (number), of which in Diana Region, of which in Atsimo-Andrefana, of which Anosy Region, (x) Enterprises directly benefiting from the project, (xi) Annual additional sales value of firms supported by the Madagascar Business and Investment Facility (MBIF), (xii) People provided with Business Development Services and training programs (number), and (xiii) Farmers provided with improved inputs and equipment.

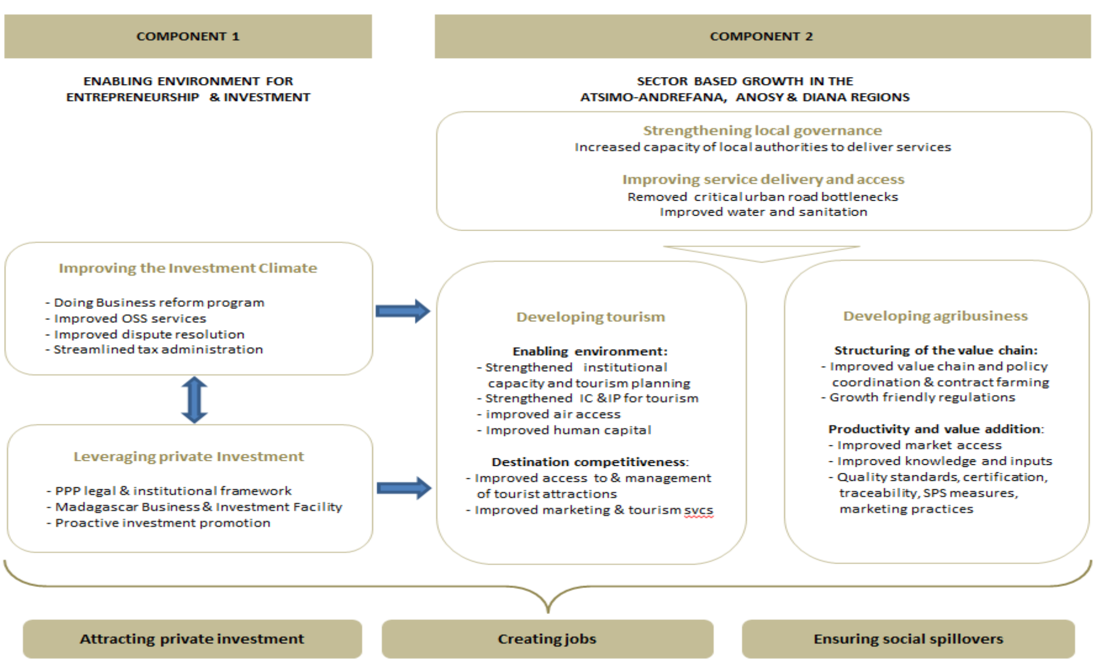
III. PROJECT DESCRIPTION

A. Project Components

22. PIC2 will support mutually reinforcing activities to promote economic recovery and improved service delivery to poor populations. At the **national level**, the project will support a series of investment climate reforms and help strengthen the public-private interface with the objective of increasing investor confidence and private investment. At the **regional level**, the project will support the implementation of targeted and integrated interventions to overcome barriers to private investment and job creation in poor regions with high growth potential; and improve basic services provision to in particular poor populations: (a) ***Atsimo-Andrefana Region***: to unlock the tourism and agribusiness potentials mainly along RN9; (b) ***Anosy Region***: to scale up agribusiness pilot programs and help develop Ehoala Park into a multi-purpose mixed industrial, logistics and commercial facility; and (c) ***Diana Region***: to upgrade the northern tourism circuit and boost agribusiness along RN6.

23. PIC2-1 will comprise three components which are summarized below and outlined in more detail in Annex 2. The description of the components also contains indicative information about PIC2-2. The SOP structure (Figure 1) and SOP results chain (Figure 3 in Annex 1) are presented below.

Figure 1: SOP Structure



COMPONENT 1: STRENGTHENING THE ENABLING ENVIRONMENT FOR ENTREPRENEURSHIP AND INVESTMENT (US$11.0 MILLION)

24. The support activities in this component will accelerate the economic recovery process by strengthening economic governance and increasing investor and private sector confidence. The project will support: (a) an investment climate reform program to improve the enabling environment for entrepreneurship and investment; and (b) a capacity building program to strengthen the government's ability to attract and channel private investments into productive infrastructure and improved services delivery. These activities will have a strong immediate contribution to the PDO by facilitating and catalyzing new private investment and job creation.

Sub-Component 1.1: Improving the investment climate (US$3.0 million)

25. Investment climate reforms are needed to boost private sector confidence and facilitate entrepreneurship and investment. This sub-component will help reduce transaction costs and increase compliance through legal, regulatory and administrative reform. The project will finance Technical Assistance (TA), training, Capacity Building (CB) and equipment to: (a) design and implement an Investment Climate (IC) Reform Program through inclusive Public Private Dialogue (PPD) led by the Economic Development Board of Madagascar (EDBM); (b) facilitate the administration of issuing permits/licenses/visas at the One Stop Shops (OSS) in the capital and in the regions through procedural and institutional reforms and the development of more effective Information and Communications Technology (ICT) services; and (c) improve dispute resolution and streamline tax administration through support activities that improve commercial justice, quicken the settlement of disputes, and facilitate business taxation rules.

26. **PIC2-2:** The investment climate reform program will mainly be implemented in Phase I but some support will be continued under Phase II and the scope will depend on the priorities of the GoM and the progress made by the time Phase II is designed.

Sub-Component 1.2: Promoting private investment (US$8.0 million)

27. Leveraging private capital, expertise and networks are essential to stimulate economic recovery and growth in Madagascar. This sub-component will: (a) build capacity for investment facilitation and promotion at EDBM; (b) establish a legal and regulatory framework for Public Private Partnerships (PPP) and build public capacity to design PPPs; (c) support the institutional development of Ehoala Park—an existing joint venture between Rio Tinto and GoM—with the aim of promoting private investment in Tolagnaro; and (d) establish a catalytic fund to crowd in private investment in the targeted regions.

1.2.1: Building capacity to attract and manage private investment (US$3.0 million)

28. This activity will improve the public-private interface for investors and build capacity to strategically invite and manage more private participation in infrastructure development and shared services delivery. First, the project will finance TA, CB and minor equipment to improve EDBM's capacity to promote and facilitate investment in a more proactive manner and with particular focus on the tourism and agribusiness sectors. Second, the project will finance TA and CB to support the development and implementation of an institutional, legal and regulatory framework to promote PPPs in particular in infrastructure and shared services. The new

structured approach feeds in with the GoM's ambition to build permanent expertise rather than continue with an *ad hoc* approach as in the past where separate line ministries pursued different ventures with the private sector without a coherent policy or strategy. The objective in PIC2-1 of the SOP is to help GoM build capacity of a PPP unit to reflect international practices in developing a PPP program. The objective in PIC2-2 of the SOP is to later finance transaction support for the implementation of a number of pilot projects within the new framework.

29. At the regional level, the project will finance (a) TA to GoM to accelerate the development of Ehoala Park—a regional multi-purpose mixed industrial, logistics and commercial facility—as part of its concession agreement with Rio Tinto for Ehoala Port. This activity will strengthen GoM's technical expertise and institutional capacity to review and support the development of the park as well as produce a commercial feasibility study and regularly review investment proposals; and (b) TA, CB and equipment for improved service delivery linked to primary and secondary solid waste collection services and water standpipe management in urban and semi-urban areas. These activities will draw upon the experiences gained under PIC1 and bring in stronger involvement by the private sector and local associations in the management of these services. An estimated 60 percent of urban dwellers, or 150,000 in Toliara and 84,000 in Antsiranana, will ultimately benefit from improved primary and secondary collection services. An estimated 330,000 citizens will also benefit from improved service quality of potable water.

30. **PIC2-2** would build upon the achievements and lessons learnt from PIC2-1 and focus on: supporting GoM in selecting a shortlist of viable demonstration projects for PPPs, preparing pre-feasibility for a few of those projects, and preparing feasibility studies and supporting the implementation for a couple of the most financially viable PPP pilot projects with the aim of improving service delivery and channeling private investment into infrastructure development.

1.2.2: Madagascar Business and Investment Facility (US$5.0 million)

31. The Madagascar Business and Investment Facility (MBIF) will expand economic activity within the targeted regions by providing matching grants to increase productivity, competitiveness and access to markets in particular for employment generating sectors such as tourism, agribusiness, but also for light manufacturing and services sectors. It will do this through direct support to new investment in productive sectors and support services, including in microfinance and skills formation, and through a youth opportunity program. MBIF's life will be four years in total–divided into two stages of two years each for PIC2-1 and for PIC2-2–with the two-year extension subject to performance, allowing a build-up of experience prior to full scale-up. The Facility will be accepting grant applications twelve months after project effectiveness and close out 60 months after project effectiveness (if PIC2-2 is approved). The disbursement target for Phase II will be approximately US$3.5 million.

32. The grants will finance TA through technical and business service providers and equipment. Copayment rates, subject to the final decision of the Fund Manager (externally hired firm but not with separate legal status), will be based on appropriate financing gap criteria. Provisionally, the upper limit on the total grant share will be 50 percent of total eligible investment in the case of private subprojects (window 1); and 100 percent for youth projects (window 2). There will be two grant windows, reflecting different specializations, and different

logistical, cost and time requirements for preparation and implementation of youth based and private commercial subprojects. A total of 35 window 1 and 100 window 2 subprojects are likely to be funded. The activities should generate roughly 1,000 direct jobs and twice as many indirect jobs (Annex 2 presents expected outcomes).

33. **Window One** will provide grants on a competitive basis to eligible private commercial subprojects, or clusters/value chains of linked private enterprise subprojects. These subprojects should be both commercially profitable and able to generate benefits beyond private profit in terms of employment, business linkages and technological spillover effects within a growth pole/corridor area. The maximum grant under this window will be US$150,000 based on the likely average cost of business services and initial equipment, with an average of US$80,000.

34. **Window Two** will provide grants across-sector to subprojects, proposed by groups of young adults (aged from 16 to 35). The maximum grant under this window will be US$10,000 reflecting the micro-scale of assisted entrepreneurs, with an average range of US$6,000 to US$8,000. A similar program was successfully implemented in Northern Uganda in 2008 and results rigorously tracked for four years (see Annex 2 for more detail).

35. **PIC2-2:** A third window would complement windows 1-2 in Phase II to allow a learning process. **Window Three** would provide grants to eligible public-private projects proposed by a formally structured grouping of one or more organizations. These could include a combination of public agencies, communities, district council entities, business associations, farmers associations and private businesses within a growth pole/corridor area.

COMPONENT 2: SECTOR BASED GROWTH IN THE ATSIMO-ANDREFANA, ANOSY AND DIANA REGIONS (US$35.5 MILLION)

36. This component is composed of mutually-reinforcing activities that are specific to each select region and that aim to promote in particular tourism and agribusiness development and improved service delivery to poor populations. It adopts a strong market-driven approach to the development of the sectors in the Anosy, Atsimo Andrefana and Diana Regions.

Sub-Component 2.1: Strengthening local governance (US$3.5 million)

37. A strong capacity building program at the local level in the first phase will improve service delivery and render expected outcomes of future project interventions more sustainable. The objectives of the following activities will be to: (a) strengthen local governance and services delivery in and around urban centers; (b) improve collection and management of local taxes; and (c) promote partnerships to support implementation of local development plans. Project interventions will be based on a proven model Opération Communale d'Appui Intégré (OCAI) that has been implemented in the Governance and Institutional Development Project (PGDI/PGDI2, P103950) through the Fonds de Développement Local (FDL). The model is based on participatory budgeting and citizen engagement, revenue management and local public service delivery linked to management of land records (communal land office and decentralized land tenure services) and justice. It allocates and monitors the use of modest grants to local authorities to support change management.

38. **Strengthen institutional capacity at the urban/rural commune level (US$2.5 million).** The project will finance TA, training, CB, and provide grants for equipment and works to local authorities to implement the OCAI model in communes with project-funded tourism and agribusiness value chains activities. It will also build capacity to improve management of local land records and public administration linked to regulatory enforcement and service delivery. The OCAI approach will be implemented in partnership with FDL and the Institut de le Décentralisation et du Développement Local.

39. **Strengthen institutional capacity at the regional level (US$1.0 million).** The project will finance: (a) TA, training, CB and equipment to implement regional development plans (PRD, SRAT) and facilitate the issuing of construction permits and business licenses in local OSS offices; and (b) TA and CB to help local and national authorities develop cross-regional coordination and improvement of the institutional capacity of local development and governance.

40. **PIC2-2**: While the first phase will seek to restore public administrative capacity for local service delivery, the second phase will allow for gradual improvements based on more long-term institutional capacity building objectives outlined in regional development plans focusing on effectiveness of local services and continuous implementation of OCAI model interventions.

Sub-Component 2.2: Improving services delivery and shared infrastructure (US$19.0 million)

41. This sub-component will: (a) increase access to improved water sources and sanitation benefiting the private sector but predominantly poor populations; and (b) remove a few critical urban road bottlenecks that are expected to worsen further with increased traffic linked to increased economic activity. The expected increase in economic activity resulting from new investment crowded in by project interventions must not come at the expense of poor populations' access to services. Urban populations in Antsiranana and Toliara are expected to expand rapidly—they nearly doubled in Nosy Be and Tolagnaro during the course of PIC1—as a result of natural population growth and through rural-urban migration.[6]

2.1.1: Upgrading urban road (US$6.0 million)

42. The project will finance public works to rehabilitate: first, in Toliara, around 5.0 km: (a) the urban road link between RN7—the national road between Toliara and the capital, which today is the only transport corridor for tourists visiting the south of Madagascar—and RN9—the national road which is being rehabilitated by AfDB/OFID and along which this project will concentrate sector support; (b) the urban access road to Toliara Port, to facilitate access and

[6] Development partners such as OFID, AfDB and EU are rehabilitating energy and national road transport corridors within the target regions. AfDB (73%), OFID (19%) and GoM (8%) are financing the Road Infrastructure Development Project which is rehabilitating 107 km of RN9 on the section of the road that runs north of Toliara (US$96mn). The works are expected to be completed by December 2016. EU is financing road rehabilitation and associated activities in the Anosy and Diana Regions (US$120mn), including the upgrading of sections along 232 km of RN12A and 155 km of RN13 plus 100 km of rural road in the Anosy Region; and 82 km of RN6. The works are expected to be completed by September 2015. OFID supports energy sector activities in the Atsimo-Andrefana and Diana Regions (US$15mn).

distribution of traded goods; and (c) the access road to the embarkation area for the Anakao ferry, which is the second most important regional tourism site; and, second, in Antsiranana, around 7.0 km: the bypass road that links RN6 with the Antsiranana Port, to avoid the increasing volume of traffic of heavy trucks in the city center where the hospitality sector is centered. The works will include side-road drains to reduce the most common cause of local road deterioration. The exact stretches will be determined once the preliminary identification analysis is confirmed in a feasibility study. The project will also finance a feasibility study for rehabilitation works in Phase II.

43. **PIC2-2:** The project would finance public works for an additional 4.5 km of urban roads in Toliara and 7.0 km of urban roads in Antsiranana, including side-road drains. The objective would be to improve access to main commercial centers, markets, hotels and thoroughfares that would create a more favorable and safer urban environment for both citizens and tourists. It would also render new investment in the hospitality industry more attractive.

2.1.2: Improving access to water and sanitation (US$13.0 million)

44. The water distribution networks in Antsiranana and Toliara are operating at full capacity with significant supply shortages. The expected inflow of tourists and new investments in hotels and production facilities will further strain water sources. The current water distribution networks cover 80 percent of the population in Antsiranana and 56 percent of the population in Toliara but insufficient water supply leaves many neighborhoods without water for long periods of time. Weak management of public standpipes is also reducing the supply of water to poor populations.

45. In **Toliara**, the project will: (a) enhance water production by repairing and equipping the two existing boreholes to produce at full capacity of 18,000 m^3/day and thereby cover demand at least up until 2020; (b) rehabilitate or construct a new 10 km long main pipeline to transfer an additional 597 m^3/hour from the production sites in Miary to the new storage site in Antanamitarana; and (c) construct a new storage of 1,500 m^3 in Antanamitarana to resolve a network hydraulic misbalance. The exact design and locations will be decided through feasibility studies commissions following project effectiveness. The activities will improve the reliability of water service delivery and guarantee 24-hour supply instead of the current 2-3 hours per day. It will especially benefit the 97,000 inhabitants who get their water from standpipes and it will also increase the number of people with access to improved water sources by 69,000.

46. In **Antsiranana**, the project will finance: (a) public works to replace the barely functional 26 km main pipeline from the catchment site in Joffre Ville to the water treatment plant (WTP) in Ambariobe-Antsiranana; (b) a feasibility study and public works to replace the old and decrepit WTP in Ambariobe to increase capacity from 12,000 m^3/day to 27,000 m^3/day to meet today's peak demand of 26,000 m^3/day; (c) construct 60 new standpipes to serve poor households; and (d) provide TA to ensure that the standpipes are properly managed and financially sustainable. Thus, the current 108,000 inhabitants with access to potable water will benefit from improved services and an additional 56,000 inhabitants will get access to improved water sources.

47. The project will finally finance TA to Jiro sy Rano Malagasy (JIRAMA) to elaborate and implement a local Quality Management Plan with the aim to improve its technical and commercial performance, including by improving bill processing and collection, enhancing technical efficiency (non-water revenue), and improve quality of services (response time to client request/complaint, communication, etc.). The objective is to make the expected improvements in capacity and service levels sustainable and the model will be replicated from PIC1. These services will be provided in the Anosy Region to maintain service levels achieved through PIC1interventions.

48. The outcome will be improved access to potable water both for productive use in the private sector as well as for urban poor populations. There will be an improvement in service quality for those already served by JIRAMA (205,000) and an increase in the number of people with access to improved water resources by 125,000. Decentralized water supply solutions will also benefit specific unserved rural locations like Anakao and Ankarana.

Sub-Component 2.3: Promoting sustainable tourism development (US$6.5 million)

49. This sub-component will: (a) improve the enabling environment for tourism sector development at the national level; and (b) promote tourism development in the Atsimo-Andrefana and Diana Regions through targeted interventions that increase the competitiveness of these destinations. The Diana Region is already the country's most visited region (outside of the capital) with 204,200 visitors in 2013; and the corridor between Nosy Be and Antsiranana is referred to as the 'northern tourist circuit'. Toliara in Atsimo-Andrefana is the end point in the second most visited tourist circuit which begins in Antananarivo. The city hosted 58,500 visitors in 2013. Both regions have strong potential to improve management of tourist attractions and attract domestic and foreign direct investment in the hospitality sector in particular linked to eco-tourism in national parks and in beach tourism.

50. The tourism development activities will follow a phased approach. The first phase will develop and implement a sector recovery strategy to strengthen capacity for strategic tourist development and create conditions for private investments. The objectives are also to improve management and realize the commercial potential of key tourist attractions and prepare for the procurement of critical public infrastructure works that in the second phase will be launched to improve access by land, air and sea, and target an expansion of hotel investments and implementation of a lodging grading system. The expected outcomes are: (a) more private investment in the tourism sector; (b) an increase in the number of tourist arrivals; (c) an increase in the number of days spent by tourists in the target regions; (d) an increase in the daily spending by tourists; and (e) an increase in the number of jobs in the sector.

2.3.1: Strengthening the enabling environment for tourism development (US$2.5 million)

51. **Building capacity for strategic tourism development (US$0.7 million).** The Malagasy tourism sector lacks a cohesive vision and market oriented sector coordination for sector development. GoM needs to elaborate a sector friendly policy that will promote sustainable and higher quality investment. This sub-component will finance: (a) CB for the Public-Private Tourism Platform that convenes the main stakeholders and for the Ministry of Tourism to upgrade its statistics and information system and tourism master plan; and (b) TA to design and

implement a functional review of the sustainable business model for the Madagascar National Tourism Office (ONTM) to help it establish a sustainable business model and implement a marketing strategy with the twin goals of increasing arrivals from established markets and identifying and targeting new markets.

52. **Improving competitiveness in the air transport sector (US$1.8 million).** High cost and unreliable air transport services are key constraints to the development of Madagascar's tourism sector. Lowering cost, increasing flights and improving services both to and within Madagascar are essential to develop the tourism sector. Limited liberalization of air services has restricted the number of long haul carriers servicing the country. Unreliable domestic air transport is often the only realistic option to access the island's main tourist attractions. This sub-component will improve international air access by financing: (a) TA to develop a National Airport Master Plan (including a vision and categorization of the airport network), identify investment priorities, develop an airport management scheme with specific focus on airports within the targeted growth poles that complies with International Civil Aviation Organization (ICAO) standards; (b) TA to develop the National Air Transport Strategy that will: (i) define the country vision in regards to implementing the liberalization policy endorsed by the government under the civil aviation law (2013) and the Yamoussoukro Declaration with the goal of developing the air transport sector (passengers and cargo); and (ii) clarify the roles of the public and the private sector, including the evaluation of main stakeholders (air transport companies like Air Madagascar and airport management companies); (c) CB to the Civil Aviation Agency (ACM) to enhance the technical oversight capacity of the sector according to best practices of the International Civil Aviation Agency (OACI); and (d) TA to promote attractiveness of the Madagascar air services providers of countries whose carriers have expressed interest in serving the country.

53. The outcome will be further air transport services liberalization and more competition among long haul and regional carriers and a lower risk for Malagasy air carriers to be banned from accessing international markets due to weak technical oversight. This will help develop the tourism sector and increase the availability and lowering the cost of air cargo services.

2.3.2: Promoting regional tourism sector development (US$4.0 million)

54. This sub-component will support the development of integrated tourism destinations in the Atsimo-Andrefana and Diana Regions by addressing constraints pertaining to underdeveloped tourism products, weak management of key tourist attractions, limited supply and quality in the accommodation sector and weak local skills.

55. **Improving management of popular tourist attractions, diversifying tourism value propositions and enhancing local value addition (US$3.0 million).** The project will finance: (a) TA to support integrated tourism development plans in the Atsimo-Andrefana and Diana Regions and help align regional objectives with the national strategy to promote private investment; (b) TA, equipment and public works to upgrade and strengthen management of select tourism attractions, including visitor and interpretation centers, signage, development of hiking trails and site development; (c) CB and public works to strengthen artisans, support local product design and rehabilitate artisanal markets; (d) TA to build capacity of workers and entrepreneurs in the hospitality industry and raise workforce professionalization standards

through local TVET and tourism schools; and (e) TA to improve revenue generation and management of select national parks, through the design and implementation of a commercialization strategy that enables Madagascar National Parks (MNP) improve ecological integrity and financial sustainability.

56. **Promoting and marketing regional destinations (US$0.5 million).** The Regional Tourism Offices (ORTs) have a critical role to develop and market regional destinations. The ORTs in Antsiranana and Toliara lack the technical and financial capacity to properly promote the destinations. The project will finance: (a) TA to improve management in the ORTs and strengthen payment compliance for the small tourist fees collected by hotels; (b) TA for promotion material and implementation of small scale marketing plans in collaboration with ONTM; and (c) TA to create a platform for collaboration between local hotels and tourism operators to facilitate joint reservation tools and joint local procurement.

57. **Preparing feasibility studies for improved access by road, air and sea to main tourist attractions (US$ 0.5 million).** The upgrading of secondary roads and port infrastructure is critical for the development of Atsimo-Andrefana as a tourism destination. Highly popular tourist attractions such as Salary Bay, Anakao and Saint Augustin are almost inaccessible by rural road. Toliara is increasingly frequented by cruise ships but amenities and facilities are poor. The project will finance feasibility studies for public works to be launched under Phase II with the aim of facilitating and enhancing access to key tourism sites

58. **PIC2-2**: Phase II would finance: (a) the rural access roads along Toliara-Anakao and Toliara-Salary in Atsimo-Andrefana and the Saline Road in the Diana Region; (b) the reception area for cruise ship passengers in Toliara; (c) the landing jetty in Salary and Anakao to facilitate cruise ship access, and (d) river crossing between Anakao and Toliara.

Sub-Component 2.4: Promoting sustainable agribusiness development (US$6.5 million)

59. This sub-component will support growth and competitiveness in a number of agribusiness value chains in which Madagascar has a proven comparative advantage, and where market dynamics indicate strong investment and poverty reduction potential. These include value chain support programs that will help unlock inclusive private investments to increase quality, productivity, sustainable production and local value addition around the cotton value chain in the Atsimo-Andrefana Region (with 50,000 producers), the pink pepper and dry beans value chains (with 5,500 producers) in the Anosy Region, and the cocoa value chain in the Diana Region (with 33,000 producers). Other value chains will benefit when there are synergies that can be generated with the lead value chains of the program. Such synergies are evident for pepper and vanilla which are frequently intercropped with cocoa plantations in the Diana Region; and for groundnut intercropped with cotton plantations in the Atsimo-Andrefana Region. This could also include support to produce fodder for the planned export-oriented abattoir project in Ehoala Park.

60. The support activities will both strengthen the enabling environment for agribusiness development at the national level and implement a series of integrated value chain support programs at the regional level. This combined micro and macro levels approach will produce a more business friendly environment with strengthened capacity of public and public/private support agencies to tackle existing market failures such as coordination failures, information

asymmetry, a lack of public goods and time-inconsistent preferences. The outcomes will be increases in private investment, exports, local value addition and livelihoods for value chain participants. The sector specific support activities outlined below will be complemented by the MBIF that will incentivize private investment and entrepreneurship more broadly.

2.4.1: Strengthening enabling environment for agribusiness development (US$2.5 million)

61. The project will help build capacity and strengthen market orientation of a few key support institutions that provide inputs, generate knowledge, regulate, enforce, organize and monitor the value chains. It will allow for a more efficient allocation of resources and help create more sustainable income opportunities for farmers through the introduction of a market oriented vision for value chain development and effective support mechanisms to promote good post-harvest operations, value addition, and trade. The project will finance TA, CB and minor equipment to: (a) support the Ministry of Agriculture and the Ministry of Trade to review and update the legal and regulatory framework covering key value chains; support their ability to monitor and apply this framework; and strengthen data collection and dissemination mechanisms. The objective is to introduce growth inducing regulations at the value chain level around marketing, licensing of operators, quality standards and certification; (b) conduct functional reviews and help strengthen essential standards and export control entities like phytosanitary control (fumigation, authorization of export) and certification bodies that provide training, monitoring, accreditation and other essential services; and (c) organize training and south-south peer learning events to leading import and exports markets with the aim to improve quality control and promote new certifications. These activities will improve the enabling environment for agribusiness value chain development and support the development of a market driven and competitive agribusiness sector. These activities will be complemented by planned IDA-funded interventions by the Agriculture Global Practice (GP) supporting a broader dialogue on agriculture development, including on important issues like land tenure linked to agribusiness.

2.4.2 Strengthen information, coordination and linkages in targeted value chains (US$4.0 million)

62. This sub-component will promote the development of competitive value chains by addressing market and coordination failures at the individual value chain level in the Atsimo-Andrefana, Anosy and Diana Regions. The project will finance: (a) TA to improve overall value chain and policy coordination through introduction of more structured, inclusive and evidence based public private dialogue (PPD) at the value chain level; (b) TA to develop a market based vision and strategic action plan for each value chain; (c) a detailed census of producers engaged in the value chains and suitable land for intensification; (d) CB to local TVETs and producer organizations' introduction and use of certification and traceability among members; (e) TA to allow MBIF to realize catalytic and inclusive investment opportunities along target value chains, including nucleus and contract farming opportunities, development of commercially operated seed banks and nurseries as well as PPP opportunities linked to for example the cocoa plantations owned by the GoM; and (f) TA to help strengthen contractual farming arrangements; and (g) feasibility studies for rural feeder roads.

63. The project will work closely with major investors, traders and light manufacturers downstream to support value chain participants upstream. This includes potential IFC Investment

Services (IS) investments in the targeted regions (cocoa in Diana and abattoir in Anosy). The value chain support programs will be implemented in close collaboration with local partners that provide agricultural extension services like Centre de Technique Horticole de Tamatave (CTHT), Agricultural Research for Development (CIRAD), and Centre National de Recherche Appliquée au Développement Rural (FOFIFA). It will also partner with large producer organizations such as Plateforme du Coton, Plateforme du Pois du Cap, Plateforme du Grains Secs, etc. for interactions upstream in the value chain.

64. **PIC2-2:** The second phase would continue supporting local linkages and contract farming. It would rehabilitate rural feeder roads that would greatly improve access to particularly productive areas: a) in Atsimo-Andrefana—43 km of feeder roads will unlock a large production area of cotton and dried beans, and complement the rehabilitation of RN9; and b) in Diana—30 km of the Haut Sambirano road will improve access to the prime cocoa growing areas.

COMPONENT 3: PROJECT IMPLEMENTATION, M&E, SAFEGUARDS, IMPACT EVALUATION (US$3.5 MILLION)

65. This component will finance the PIU and allow it to implement the project, comply with fiduciary rules and safeguards, and fulfill M&E and impact evaluation commitments. The PIU's core management team and key technical staff of PIC1 that is scheduled to close on December 31, 2014, will remain intact and lead the implementation of PIC2. The project will retain its head office in Antananarivo with strong decentralized technical units in the targeted regions that oversee implementation, act as focal points, and lead the dialogue with local stakeholders.

66. M&E is the responsibility of the PIU (see Annex 2). The progress will be followed through: (a) household surveys, and (b) data from CNaPS, EDBM and the World Bank Doing Business team. The project will conduct a rigorous impact evaluation of the overall project as well as of certain interventions, based on scientific methods. Critically, the evaluators will compare treatment and control groups in order to causally link any observable changes to project activities. The impact analysis will therefore be able to capture intended and unintended benefits of project interventions. In particular, household surveys (baseline and endline) will be carried out in the target zones and in control zones to capture the additional impacts of the project on households.

B. Project Financing

Lending Instrument

67. **This project is designed as part of a series of projects (SOP) with a single borrower.** PIC2 will be implemented over a six-year period and in two phases (PIC2-1 and PIC2-2). Implementation of the first phase is planned for May 2015 to March 2019 and the second phase for October 2017 to March 2021. The second phase can be advanced to meet client demand and it will be contingent on satisfactory implementation progress. Based on the indicative timeline for the two phases, it is expected that the project will move to Phase II by the project mid-term review and that there will be roughly a year and a half of overlap between the two phases. Both phases can be implemented without conditions of separate financing from other donors or partners and the first phase is motivated independently of the second phase.

68. **The lending instrument for PIC2-1 and PIC2-2 is Investment Project Financing (IPF).** Table 1 presents the indicative cost by component. PIC2-1 will be financed by an IDA Credit of US$50.0 million and PIC2-2 is envisaged to be financed by an IDA Credit of US$70.0 million.

Table 1: Indicative Costs by Component for the First Phase of the SOP (in US$ million)

Project Cost by Components	Project Costs (Phase I)	IDA Financing Phase 1*	% of IDA Financing (Phase 1)
Comp 1: Strengthening enabling environment	**11.0**	**11.0**	**100**
1.1. Improving the investment climate	3.0	3.0	100
1.2. Promoting private investment	8.0	8.0	100
Comp 2: Sector based growth in three regions	**35.5**	**35.5**	**100**
2.1. Strengthening local governance	3.5	3.5	100
2.2 Improving service delivery and shared infrastructure	19.0	19.0	100
2.3. Promoting sustainable tourism development	6.5	6.5	100
2.4. Promoting sustainable agri-biz development	6.5	6.5	100
Comp 3: Project implementation, safeguards, M&E, IE	**3.5**	**3.5**	**100**
Total cost	**50.0**	**50.0**	**100**
Total Project Costs (Phase I)	**50.0**		
Total Financing Required	**50.0**		

C. Program Phases and Component (Series of Projects)

69. PIC2 is designed as an SOP in order to allow for timely sequencing of project interventions along newly upgraded road transport corridors in FY15-FY17. PIC2-1 will improve economic governance and the investment climate, lay the foundation for economic recovery and sector expansion in tourism and agribusiness, and improve service delivery to mainly poor populations. PIC2-2 would then build upon lessons of PIC2-1 and leverage the improved public-private interface and increased investor confidence. It would help unlock new productive investments and accelerate sector expansion in agribusiness and tourism through a series of infrastructure works. The SOP approach will ensure that: (a) local governance standards are restored through rapid implementation of a capacity building program; (b) the most urgent investment climate constraints are addressed in Phase I allowing for more large-scale investments in Phase II; (c) a legal and regulatory framework for PPPs is established in Phase I to allow for the conclusion of some pilot transactions in Phase II; (d) basic services linked to water and sanitation are strongly improved to large urban populations in Phase I while the upgrading of secondary roads is prepared for procurement as soon as the externally funded rehabilitation of key road transport corridors is ready; and (e) an intensive learning process is allowed and where lessons from implementation will allow for a scale up/down of individual activities in Phase II.

D. Lessons Learned Reflected in the Project Design

70. The project design builds upon the experiences gained in PIC1 and the design incorporates lessons learned from other growth poles projects and catalytic funds in World Bank client countries:

- **The design should be inclusive and anchored locally.** Extensive local consultations and the integration of existing development plans and strategies at the local and national levels into project design are essential to build ownership and avoid duplicative efforts. Beneficiaries should be invested in the success of the project.
- **Public investments should be flexible and respond to private sector demand and private sector-led investments:** the infrastructure investments and the MBIF support are directly linked to demonstrated private sector demand (e.g. new private investments in Ehoala Park, expansion of existing outgrower schemes, access to touristic sites, and increasing demand for skilled workers). Contractual farming between established traders/operators/processing companies and local suppliers are essential for the development of local supply chains.
- **Concentrating investments in well-defined and spatially limited areas** reduces the risk of design complexity, strained implementation capacity, and limited resources spread thinly;
- **Continuously incorporate lessons learned from project implementation.** The project will allow some flexibility in the implementation of the various activities based on a rigorous monitoring of the indicators. The two-phased approach (SOP) will also allow for the scaling up of successful activities and the scaling down or restructuring of less successful activities;
- **Monetization of natural resources can help protect them, improve their governance and create jobs**. The PIC1 Project has demonstrated the success of ecotourism in Nosy Tanikely and Mont Passot and this approach will be the basis for upgrading of natural assets;
- **Regional results can be achieved with strong decentralized teams.** Having permanent local teams on the ground is crucial to develop a tailored approach and include local communities early on and be able to take local priorities into account.
- **Build financially sustainable institutions and manage expectations carefully**. Building financially sustainable institutions is necessary with a view to manage expectations of results and reputational risks. Strengthening institutions is the most time-consuming and challenging aspect of the integrated approach. Strengthening the capacity of local public and public-private counterpart institutions as well as regional agencies is a priority in PIC2.
- **PPPs can leverage modest public resources to improve services and achieve larger impact.** Leveraging private capital and expertise can be a bridge to not only infrastructure funding gaps but also managerial and governance deficits. In addition, the private sector can help maintain public assets. Planning for sustainability of newly constructed infrastructure may involve the selection of a private company to operate and ensure proper management and operation of the facilities as well as the creation and strengthening of community groups to take over the responsibility for oversight of the PPP;
- **Maximize synergies with complementary donor-funded activities.** Given the reduced availability of donor funding the project has been designed to complement donor-funded large-scale infrastructure projects to maximize alignment and synergies;

- **Most private investors are able to sort out land tenure issues on their own.** The project has not been designed to help facilitate access to land for private investors. The experience from PIC1 is that private investors are much more effective in securing access to land than WBG projects.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

71. **Ministry of Finance and Budget:** The Borrower will be the Republic of Madagascar, represented by the Ministry of Finance and Budget. As the Borrower's representative, this Ministry's key responsibilities under the project will be to ensure that the executing Ministries carry out their responsibilities in accordance with the terms of the Financing Agreement.

72. **Ministry of State for Infrastructure, Equipment, and Land Management (MEIEAT):** The Ministry of State for Infrastructure, Equipment, and Land Management will chair the Project Steering Committee and the PIU will report to the Minister of State for Infrastructure, Equipment, and Land Management.

73. **PIU:** The PIU will have primary responsibility for project implementation including fiduciary aspects, with financial management of the IDA funding and procurement of goods, works and services for the project. Project interventions for each component will be managed and implemented by the PIU in close collaboration with relevant agencies through delegated authority from line ministries. The PIU will oversee the flow of funds to the implementing agencies for each component and sub-component, as well as ensure the reporting of information from each agency to the PIU and the Ministry. The duties and functions of the PIU will include: (a) implementation of all planned project activities; (b) procurement of goods, work contracts, consultancy services, etc.; (c) monitoring the quality and costs of deliverables; (d) implementation of social and environmental safeguard instruments; (e) monitoring construction of works; (f) validating results on the ground through local stakeholders and third party observers; (g) communicating and consulting proactively with project stakeholders; (h) coordinating with GoM and local authorities and financing agencies; and (i) collecting and updating M&E data. The PIU will work closely with private and public sector partners. Timely and effective implementation and disbursement will require a strong team both in the capital and in the targeted regions. Approximately 15-20 project staff will likely be needed in Antananarivo; 15-20 in Diana; 15-20 in Atsimo-Andrefana; and 5-10 in Anosy.

74. **Project Steering Committee:** The Project Steering Committee will consist of representatives from key line Ministries/agencies and will have a strategic oversight function role. It will be chaired by the Ministry of State for Infrastructure, Equipment and Land Management and be established prior to project effectiveness. The Steering Committee will meet 2-4 times per year to review project progress reports, oversee the project's implementation, validate yearly reports, annual work plans and budgets, and provide oversight and support for effective project implementation. The Project Steering Committee will include at a minimum high level representatives of the ministries responsible for tourism, commerce, agriculture and rural development, and water, as well as a representative of the Office of the President. The

details on proxy representation and quorum for meetings will be defined in the Project Implementation Manual.

75. **Investment Climate Reform Committee**: The activities under *'Component 1.1: Improving the investment climate'* will be informed and supervised by a separate Investment Climate Reform Committee chaired by the Presidency and established latest three months following project effectiveness. GoM will communicate and agree upon the composition of the Investment Climate Reform Committee, or a similar institutional framework, with the Association. Since EDBM is the implementing agency for many investment climate reforms, GoM is required to issue a revised decree to ensure that EDBM is financially autonomous as per the August Budget before disbursement on Component 1.1 and 1.2 (excluding MBIF).

76. **MBIF Fund Manager:** A competitively selected Fund Manager will manage the MBIF. The Fund Manager will report to the PIU Coordinator and the Project Steering Committee and the Fund Manager is expected to have field presence in the three regions. The role, functions, fiduciary, governance and reporting arrangements will be defined in the MBIF Grant Manual, which will be agreed with GoM. The Fund Manager will appraise funding requests and submit these to an Investment Committee for review and approval.

77. **Operations Manual:** The Operations Manual will cover basic guiding principles of the project, the established implementation arrangements and the main responsibilities of the implementing and executing institutions and entities. It will also include details on the MBIF for which there will be a separate Grant Manual developed by the private Fund Manager.

B. Results Monitoring and Evaluation

78. The GoM and the World Bank will evaluate progress on the indicators presented in Annex 1 through regular reporting by the PIU and implementation support missions. The PIU will collect and present data on project indicators and core sector indicators. Data will be collected to assess the direct impacts of the various interventions and to measure spillovers in the growth poles/corridors. Data will be collected through CNaPS, INSTAT, EDBM, fiscal authorities and standard databases such as DBI. In addition, the Project Preparation Advance financed a Household survey and an enterprise survey as part of the baseline for the Project. A mid-line and end-line enterprise survey will be carried out to monitor the challenges that firms are facing over the lifetime of the project. In addition, the project will conduct annual short household surveys over a restricted sample of households in the targeted poles as well as a more thorough household survey at the completion of the project. The output-level M&E will be the responsibility of the PIU. The PIU will hire an M&E Specialist responsible for this work.

79. Survey design and management of the impact evaluations will be the responsibility of the World Bank task team and covered by regular Bank budget. The Project will finance data collection contracted to a company or statistical agency with extensive experience and local capacity in the administration of large surveys.

C. Sustainability

80. The project is anchored in the priorities of the GoM's new National Development Plan. It particularly highlights tourism and agriculture as key sectors for economic recovery and job creation. The integrated approach is strongly supported in Madagascar both at the central and regional levels as demonstrated by the positive feedback obtained during the workshops organized during project appraisal. The continuation of TA programs in Tolagnaro and Nosy Be in areas such as solid waste collection, landfill site management, standpipe management, local governance at the commune and region levels, and the management of natural assets such as Nosy Tanikely and Mont Passot, will ensure that knowledge transfers are allowed to take place over time. The expansion of these activities to new regions will also be guided by lessons learned in PIC1. Finally, EDBM is becoming a financially autonomous agency following the passing of the budget in August 2014. New support to EDBM will be TA rather than financing of mostly staff remuneration as in the past. All the public institutions that the project will work with and support will continue to function after the project closes.

V. KEY RISKS AND MITIGATION MEASURES

A. Risk Ratings Summary Table

Risk Category	Rating
Stakeholder Risk	**Moderate**
Implementing Agency Risk	
- Capacity	**Low**
- Governance	**Moderate**
Project Risk	
- Design	**Substantial**
- Social and Environmental	**Substantial**
- Program and Donor	**Moderate**
- Delivery Monitoring and Sustainability	**Low**
Overall Implementation Risk	**Substantial**

B. Overall Risk Rating Explanation

81. The Overall Implementation Risk is rated *Substantial*. The high country risk and relative complexity of integrated interventions are mitigated by the strong commitment and ownership of the project among local authorities and the private sector as well as the strong capacity of the PIU with its proven track record of delivering in times of turbulence.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

82. The economic and financial analysis covers PIC2-1 for a total budget of US$50 million and core activities in the Diana and Atsimo-Andrefana Regions where most support activities will be concentrated. Annex 7 presents details of assumptions and the economic rate of return of the overall program (Phase I and II).

83. The analysis focuses on the conditions that need to be met by a high end hotel in Madagascar to be profitable. A 16 percent internal rate of return (IRR) over a 10-year period, which is a rather low rate for a private investor, requires a 65 percent occupancy rate (average calculated per annum) and daily expenditures for an average tourist (excl. airfares) of US$220. The median tourist spent an average of US$156 per day (excl. airfares)[7] in 2007 and the occupancy rate was about 63 percent during peak season and 33 percent during low season in 2013.[8] The conditions obtained from the financial analysis are reasonable but require strong measures to boost the number of new tourist arrivals in the country.

84. The economic analysis is based on a cost-benefit analysis (CBA) that identifies the costs and benefits to whoever and wherever they accrue. The assessment measures the broader economic impact on welfare, revenue and trade viewed from the government's perspective. The analysis covers three aspects: (a) additional tourist activity that is compared with tourist activity in the 'without project' situation. More specifically, the tourist activity depends on the additional number of tourists and the economic rents that will be collected from current and additional tourists; (b) additional agricultural revenues generated by an increase in productivity and additional hectares made available by road rehabilitation and a better organization of the value chains. The analysis focuses on one value chain in each region: cotton in Atsimo-Andrefana and cocoa in Diana; and (c) the development of a formal private sector. By laying the foundation of a more conducive and investor-friendly business environment, the project is expected to help the establishment of new firms but importantly to incentivize formalization that will translate into additional government revenue.

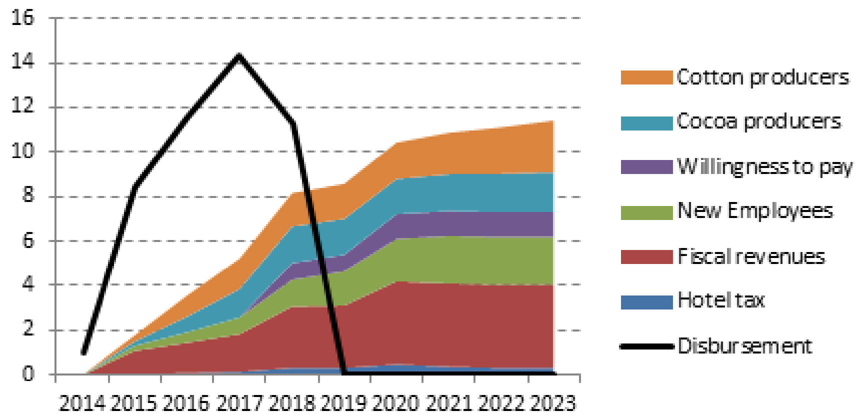
85. Overall, the following benefits are identified: (a) hotel taxes (a flat fee per night collected by hotels); (b) fiscal revenue generated by additional touristic activities (19,000 additional tourists per annum by 2024 compared to a 'without project' but also an increase in their daily expenditures); (c) fiscal revenue generated by improved services in urban areas; (d) additional revenue for new employees in the tourism sector generated through a higher occupancy rate for existing hotels and new investment (4,800 new jobs by 2024); (e) an increase in the willingness-to-pay by existing and new visitors through the development of new attractions and higher entrance fees for better serviced natural parks and tourist attractions (assuming that tourists have an elastic demand to moderate entrance fees for excursions and natural parks—in other words, entrance fees are not additional to the daily expenditures); (f) additional revenue for cocoa producers; and (g) additional revenue for cotton producers. The project will result in a slight increase in dried cocoa production from 5,000 tons in 2014 to 8,000 tons in 2019 and in ginned cotton from 11,000 tons to about 17,000 tons in 2019.

86. The economic rate of return (ERR) calculated over a 10-year period with a discount rate of 10 percent is 14 percent and the net present value (NPV) is US$8.0 million. The costs and benefits are presented in the Figure 2. The economic return for the overall program (Phase I and Phase II) has been calculated over a 10-year period with a discount rate of 10 percent. The ERR is 27 percent and the NPV is US$52 million.

---

[7] Madagascar Tourism Value Chain Study (2007).
[8] Data from Enterprise Survey (2014). This low occupancy rate reflects the impact of the political crisis on tourism.

Figure 2: Costs and Benefits for PIC2 (Phase I only)



Source: Author.

B. Technical

87. The project has been designed based on extensive consultations with central and regional government officials and private sector representatives; value chain analyses and pre-feasibility studies financed by the Project Preparation Advance; and an enterprise survey of 2,100 firms and associated impact assessment. In addition, a household survey will be completed in December 2014 to provide baseline poverty indicators.

88. First, the task team consulted local authorities and private sector representatives in main economic centers outside the capital (Antsiranana, Nosy Be, Toamasina, Tolagnaro, Toliara, Antsirabe, and Mahajanga) during scoping missions. Once the primary regions were selected, extensive consultations took place with local authorities, investors, entrepreneurs and local communities in the three regions over an 18-month period. Town hall style meetings were organized under the leadership of the Chief of Region and sector specific workshops covered issues and priorities and proposed project interventions were identified and documented.

89. Second, following the presentation of the Project Concept Note (PCN) recommendations, GoM officially endorsed the project and requested a Project Preparation Advance of US$2 million which was approved. It financed a series of project design studies in the proposed technical areas of intervention. Separate missions focused on the national level issues—such as legal and regulatory reform priorities and PPP capacity—and a number of workshops were organized in Antananarivo. The technical approach outlined in this PAD is based on extensive analytical work which will allow the task team to refer back to detailed action plans, budget proposals and timelines as well as data at the micro-level.

90. Third, the design is also informed by an enterprise survey of 1,000 formal and 1,100 informal firms that was conducted in the targeted regions as well as another four economic centers of Madagascar in December 2013–March 2014. The data were used to prepare an impact assessment of PIC1 and an investment climate assessment benchmarking Madagascar with other countries. The technical design of the project is thus based on comprehensive independent quantitative and qualitative research.

91. Finally, most of the PIC2 interventions will be led by WBG task leads and PIU project managers who have led the work of PIC1 and who will seamlessly transition to new geographical areas bringing their expertise and local experience along. PIC2 has task leads with clear roles, budgets and responsibilities to supervise the proposed interventions with the joint goal of tackling the jobs and inclusion agendas. The following global practices will play an important role: Trade and Competitiveness GP, Energy and Extractives GP, Transport and ICT GP, Governance GP, Agriculture GP, Water GP and Education GP.

C. Financial Management

92. A financial management assessment of the proposed implementing agency currently implementing PIC1 was undertaken as part of the project appraisal process. The assessment was undertaken to evaluate the adequacy of the proposed financial management arrangements in compliance with Bank Policy on Investment Project Financing, OP/BP 10.00, and the Financial Management Manual. The financial management residual risk rating for the Project is *Moderate*.

93. The existing PIU will be responsible for the financial management of the project. The PIU has financial management staff that possess the relevant qualifications and the appropriate experience with regard to the Bank Financial Management (FM) procedures and requirements. However, the current Finance Manager is seconded to the PIU by an accounting firm that was contracted to carry out the financial management function. The PIU will therefore recruit a Finance Manager (as an individual Consultant) who will supervise the financial management team. In addition, the PIU will recruit a total of three Accounts Assistants (one for each regional office) who will be responsible for the financial management at the Antsiranana, Toliara and Tolagnaro regional offices. The PIU will retain the current Chief Accountant and Accounts Assistant to ensure continuity in the new project. Finally, in order to ensure the timely carrying out of the required audits the PIU shall engage independent auditors for the purpose not later than six months after the project effectiveness.

D. Procurement

94. A Procurement Code was passed by the Parliament and the Senate and became effective in July 2004 and included simplification of procedures and compliance with international standards. The Procurement Code has also been supplemented by regulations, procedures manuals, and standard bidding and other procurement documents. The Bank approved the Use of Country Systems (USC) on April 24, 2008, which includes International Competitive Bidding (ICB) and Quality and Cost Based Selection (QCBS). However, this approval does not extend to Madagascar given that there are a certain number of pre-requisites that have not been fulfilled, including the fact that Madagascar has not yet expressed its interest to be part of the pilot. As a result, despite the support from other development partners for USC, there is no formal approval from any partners on USC in Madagascar. Therefore, during the preparation of the project, it was agreed with the Borrower that IDA Guidelines and Standard Bidding Documents (SBDs) will be used. The existing Program Implementation Manual (PIM) governing PIC1 will be updated before effectiveness to reflect the arrangements for the proposed PIC2.

95. Procurement activities of the proposed financing will be carried out by the PIU procurement unit. This unit will function as a procurement unit in accordance with the provisions of the Procurement Code. The procurement team is currently duly staffed with two proficient procurement officers and an assistant. The procurement unit has had substantial experience in managing procurement operations within the PIC1. A Procurement Capacity Assessment of PIU, including training needs and arrangements, was conducted as part of project preparation. The assessment reviewed the organizational structure for implementing the financed activities and the interaction between the PIU and the GoM department as beneficiaries of the program.

E. Social and Environment (including Safeguards)

Social

96. PIC2 has been conceived in a participatory manner and has been the subject of recurrent discussions and presentations; at local and national levels. First, the project has been discussed with various stakeholders within Madagascar, including not only national and regional administrations, but also the private sector and city administrations. Second, consultations with local stakeholders will continue throughout the project life time. The preparation and implementation of safeguards instruments has also been and will continue to be part of the consultation process.

97. Madagascar is one of the world’s poorest countries and it has failed to meet the Millennium Development Goals. The population of the three targeted regions is estimated at 2.7 million and the project is expected to directly contribute to the WBG’s twin goals of poverty reduction and shared prosperity by: (i) upgrading basic services to poor communities, including of potable water and sanitation; (ii) improving the functioning of certain value chains in which the poor are heavily engaged; (iii) generating jobs in the tourism sector, and (iv) helping strengthen the capacity of local authorities to formulate, prepare, implement and manage medium- and long-term integrated regional development projects. Other benefits will include induced development and an increase in government revenue.

98. The project will ensure that gender issues are incorporated in the planning and implementation and women are involved in decision making so that their interests and that of their children would be guaranteed in project implementation. The gender impact analysis will be conducted during implementation to enable gender mainstreaming and inclusion of other vulnerable groups in the project. In particular the project will support women and youth through: (a) activities in agriculture where women are highly involved in post-harvest activities and in many value chains; (b) activities in tourism where women represent 60 percent of the workforce (Enterprise Survey, 2014); and (c) Window 2 of MBIF which targets young adults. In addition, both the M&E framework and the impact evaluation will monitor the impacts on gender.

99. Expected adverse social impacts associated with PIC2 include, but are not limited to: land acquisition, involuntary resettlement, accident risks during the works, health and safety risks; use of potentially harmful pesticides and other biocide products; harm to potential chance finds of physical cultural resources, impacts on cultural resources as well as influx of tourism enticing sex workers and the transmission of HIV/AIDS. HIV/AIDS prevention will be part of the social mitigation measures of the project. The urban and rural roads to be rehabilitated, likewise other

infrastructure investments that require land acquisition, will be subject to social assessment and subsequent RAP preparation of resettlement action plans (RAP), as need be.

100. The social safeguards policy triggered is: OP/BP 4.12 (Involuntary Resettlement). The policy is triggered as investments in the agribusiness, infrastructure and tourism sectors are likely to induce (lead to some) land acquisition. As the site specific locations of the proposed investments are yet to be identified, the Borrower has prepared a Resettlement Policy Framework (RPF). The RPF includes detailed information on the legal and institutional framework, eligibility criteria, assets evaluating methods, implementation arrangements, grievances redress mechanisms, resettlement budget totally covered by the Government and monitoring and evaluation. The RPF sets forth the basic principles and procedures/directives to be followed by the Borrower for the preparation of potential Resettlement Action Plans (RAPs), once the specific site locations of the proposed activities are known. The RPF was disclosed on the project website (www.pic.mg) and in printed media (Midi Madagasikara and L'Express de Madagasikara) on November 3-5, 2014. The RPF was also disclosed in Infoshop on November 5, 2014.

Environmental

101. The project is classified as a Category B as none of the project components is deemed to induce long-term, irreversible environmental and social impacts. Safeguards policies triggered include: Environmental Assessment (OP/BP 4.01), Natural Habitats (OP/BP 4.04), Physical Cultural Resources (OP/BP 4.11), and Pest Management (OP 4.09). Health and Safety Guidelines are expected to apply given the agribusiness investments and civil works to be financed by the project. Since the exact physical locations of all the proposed activities are yet to be identified, the Borrower has prepared an Environmental and Social Management Framework (ESMF). It builds upon the ESMFs/ESIAs prepared by ongoing World Bank funded operations. The ESMF will be used to screen sub-project proposals for environmental, social, gender, and health and safety impacts by using the ESMF the Environmental and Social Screening Form (ESSF) form and checklist. Based on the screening outcome it will be decided if the sub-project will need to prepare: Environmental and Social Impact Assessments (ESIAs); Environmental and Social Management Plans (ESMPs); RAPs and implement the Pest Management Plan (PMP). The ESMF sets forth the principles and procedures to be followed by the Borrower once the physical locations of activities will be known and to be applied for each subproject, including for OCAI and MBIF grants. The ESMF was disclosed on the project website (www.pic.mg) and in printed media (Midi Madagasikara and L'Express de Madagasikara) on November 3-5, 2014. It was also disclosed in InfoShop on November 5, 2014.

102. The project envisages supporting tourism investments within a few protected areas but activities will be sited within buffer and/or peripheral areas. Layout plans have been approved and prepared involving local communities around the potential eco-tourism zones. The potential zones are composed of little environmental sensitivity and poor in biodiversity. These plans have been elaborated under the WB funded Third Environmental Program (EP3). No natural habitat will be impacted by the project activities. However, a Pest Management Plan has been prepared, consulted upon and disclosed given the potential magnitude of the agribusiness investments. Potentially harmful pesticides and other biocide products may be utilized for the control of

disease vectors in the agricultural areas. Funds to prepare and implement these potential ESIAs, ESMPs, PMPs and RAPs have been included in the project costs (US$0.86 million).

103. As activities to be financed under the catalytic funds have yet to be identified, the ESMF will set forth the principles and guidelines to be followed by the borrowers to comply with the requirements of the triggered policy. It includes the criteria to select the small industrial projects, a mechanism to review and conduct an environmental screening to avoid and mitigate the environmental and social impacts risks of potential subprojects eligible for financing. The key steps and due diligence to identify eligible activities included the following: (i) activities classified as Category B, according to World Bank OP 4.01, where the proposed activities presented should receive an environmental license delivered by the Malagasy Environmental Authority (National Office of Environment) and implemented in a manner satisfactory to the Environmental and Social Management Plan (ESMP) that would be prepared for each subproject, and monitored by the Malagasy Environmental Authority, and (ii) activities classified as Category C according to World Bank OP 4.01(i.e. negligible or no environmental and social impacts).

104. Tombs are widely dispersed in the Toliara region and so are sacred places in the North. However, to date, no project activity will trigger OP 4.11 (Physical Cultural Resources). Concerning infrastructure subprojects (mainly roads), no archaeological vestiges will be impacted because the project will work under the existing right-of-ways. For more assurance, the ESMF considered a provision for cultural resources management if it happens this policy is triggered during the implementation phase and included “chance finds” procedures for inclusion in the contractors’ contract.

105. To comply with Pest Management (OP 4.09) and to appropriately manage the health and environmental impacts with the use of inorganic fertilizers and pesticides, the Borrower has prepared, consulted upon and disclosed a standalone Pesticide Management Plan (PMP). It includes a number of implementable guidelines/actions aiming at reducing/mitigating farmers groups/communities’ exposure to pesticides used in agricultural production systems. The PMP proposes to develop a set of training kits and envisages further strengthening the technical capacity of Plant Protection Services at regional and local levels with the overall objective of reinforcing the control of pesticide usage, and improving the knowledge of various key stakeholders (farmers, local vendors, regional agricultural technicians such as extension-workers, etc.) on the safe transportation, storage/disposal and application of agrochemicals products. Finally, it recommends the application of an integrated pest management approach coupled with the promotion of agro-ecological practices by farmer groups. The PMP was prepared and approved by the Association and disclosed both in-country and at the Infoshop on September 16, 2014.

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]

Annex 1: Results Framework and Monitoring

MADAGASCAR: Second Integrated Growth Poles and Corridors Program (SOP-1)

The Project Development Objective is to contribute to increased economic opportunities and access to enabling infrastructure services, as measured by an increase in jobs and formal firms, in Targeted Regions.

Years 5 and 6 are indicative cumulative target values that take into account PIC2-2 and the final target values for the overall program.

PDO Level Results Indicators	Core	Unit of Measure	Baseline	Cumulative Target Values						Frequency**	Data Source /Methodology	Responsibility for Data Collection	Description (indicator definition)
				2015	2016	2017	2018	2019*	2020*				
Indicator One: Number of formal jobs created in the targeted poles/corridors	☐	Number	3,257	3,400	4,400	6,450	8,000	9,600	10,100	Yearly	CNaPS	PIU	Formal jobs are defined as employment as reported by employers to the CNaPS. This is the number of new staff additions by surveyed employers. Baseline is the average number of 2011-13 (the last three reported years).
- Of which in Diana region	☐	Number	1,528	1,500	2,000	3,000	4,000	5,000	5,200	Yearly	CNaPS	PIU	
- Of which in tourism	☐	Number	492	450	500	550	600	750	800	Yearly	CNaPS	PIU	
- Of which in Atsimo-Andrefana region	☐	Number	335	600	1,000	2,000	2,500	3,000	3,200	Yearly	CNaPS	PIU	
- Of which in tourism	☐	Number	79	90	200	200	500	700	800	Yearly	CNaPS	PIU	
- Of which in Anosy region	☐	Number	1,394	1,300	1,400	1,450	1,500	1,600	1,700	Yearly	CNaPS	PIU	
Indicator Two: Number of formal businesses newly registered in the targeted poles	☐	Number	1,542	1,590	1,710	1,890	2,080	2,230	2,400	Yearly	EDBM/ INSTAT	PIU	Flow data of registered businesses at fiscal centers/EDBMs, including sole proprietorships. Baseline is the average number of 2011-13 (the last three reported years).
- Of which in Diana region	☐	Number	1,029	1,050	1,100	1,200	1,300	1,400	1,500	Yearly	EDBM/ INSTAT	PIU	Businesses registered at fiscal centers in Antsiranana, Ambanja, Ambilobe and Nosy Be + EDBM local offices in Antsiranana and Nosy Be.
- Of which in Atsimo-Andrefana region	☐	Number	130	140	160	190	230	270	310	Yearly	EDBM/ INSTAT	PIU	Businesses registered at fiscal centers/ EDBM local office in Toliara
- Of which in Anosy region	☐	Number	383	400	450	500	550	560	590	Yearly	EDBM/ INSTAT	PIU	Businesses registered at fiscal centers/ EDBM local office in Tolagnaro

Indicator Three: Number of beneficiaries	☒	‘1000	0	0	138	259	417	460	534	Yearly	Compilation from MFIs, Catalytic Fund, Youth Opportunity Program, PIU, JIRAMA	PIU	Cumulative figures. Direct beneficiaries are defined as follows: (i) number of trainees trained through supported TVETs, other institutes or mobile training programs, BDS training; (ii) additional people provided with access to solid waste management, and improved water sources, (iii) farmers provided with inputs and equipment.
- Of which women	☒	%	NA	NA	50	50	50	50	50	Yearly		PIU	
- Of which people provided with access to solid waste collection	☒	‘1000	0	0	40	50	80	120	190	Yearly	Municipalitie s	PIU	
- Of which people provided with improved water sources	☒	‘1000	0	0	97	205	330	330	330	Yearly	JIRAMA	PIU	One public standpipe serves an estimated 200 people and one private connection serves 10 people.

INTERMEDIATE RESULTS

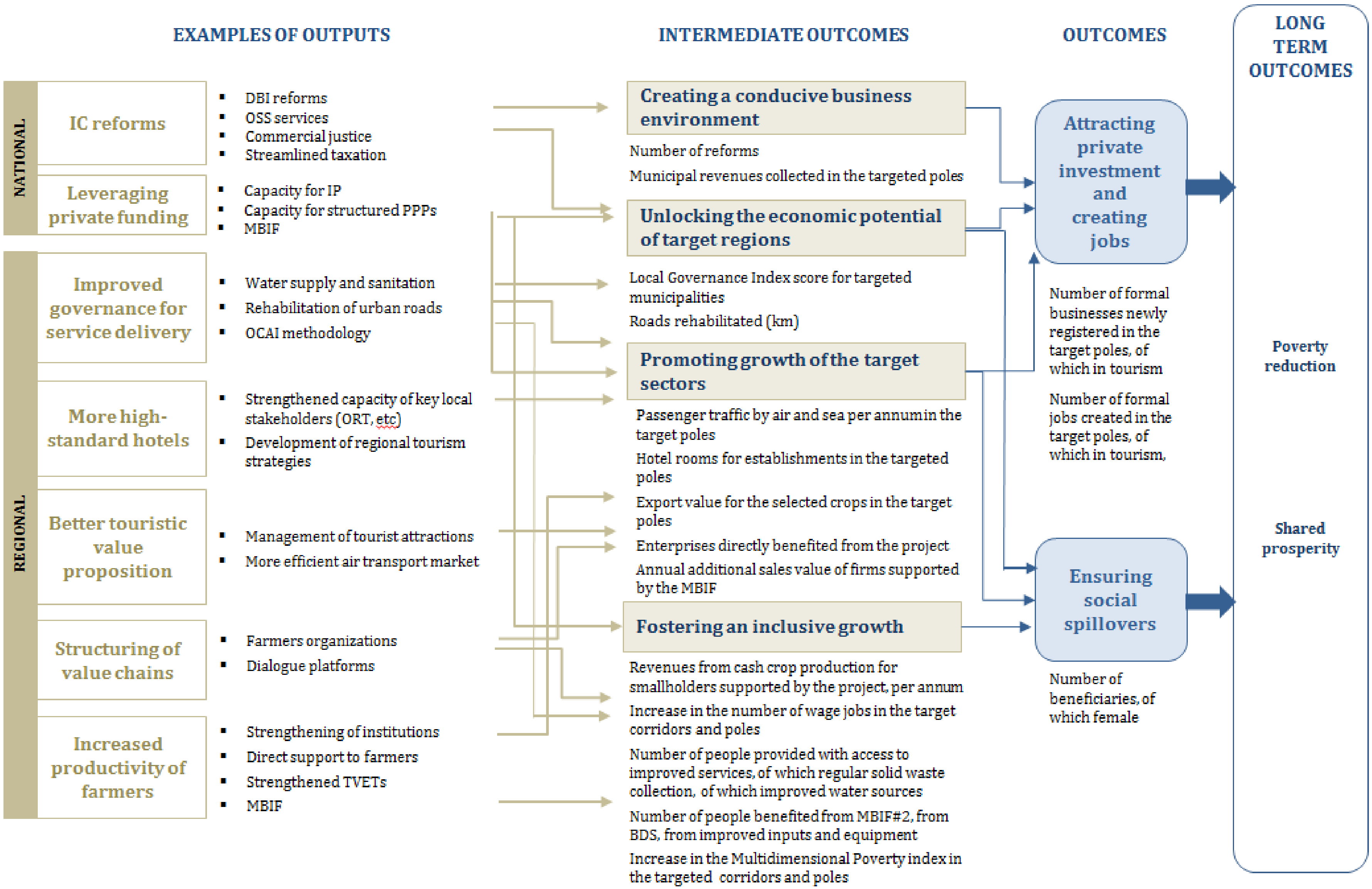
Intermediate Results Indicators	Core	Unit of Measure	Baseline	Cumulative Target Values*						Frequen cy**	Data Source/ Methodology	Responsibil ity for Data Collection	Description (indicator definition)
				2015	2016	2017	2018	2019	2020				
Intermediate Result (Component One): Strengthening the enabling environment for entrepreneurship and investment													
Intermediate Indicator One: Number of reforms	☐	Number	0	0	4	6	8	8	8	Yearly	EDBM	PIU	A reform is defined as a change to administrative procedures or institutional changes. The number of reforms is the sum of IC reforms, reforms related to commercial dispute and reforms related to tax simplification.
- Of which IC reforms	☐	Number	0	0	2	4	4	4	4	Yearly	EDBM	PIU	To be enacted as a reform, these changes must result in a reduction in 10 percent or more in time, cost or number of procedures for businesses.
- Of which reforms related to commercial dispute	☐	Number	0	0	1	1	2	2	2	Yearly	EDBM	PIU	To be enacted as a reform, changes to primary and secondary legislation and changes to administrative procedures, or institutional changes have led to: i) 10 percent or more reduction in the time to resolve a commercial dispute, Or ii) 10 percent or more reduction in cost to resolve a commercial dispute.

- Of which reforms related to tax simplification	☐	Number	0	0	1	1	2	2	2	Yearly	EDBM	PIU	To be enacted as a reform, changes to administrative procedures or institutional changes have led to: i) a reduction in the number of staff hours it takes to prepare, file and pay taxes, Or ii) a reduction in the number of distinct taxes or in the number of tax payments, Or iii) a reduction of 50 percent or less in the time limit for receiving a VAT refund.
Intermediate Indicator Two: Increase in the number of wage jobs in the targeted corridors and poles	☐	Percent	N.A.	+ 0	+ 2	+ 5	+10	+ 15	+ 25	Every two years	Light Household Survey by INSTAT	PIU	Wage job is defined as a job: (i) provided by someone who is not a member of the household in the past seven days before the interview; and (ii) remunerated (salary). This includes both formal and informal jobs.
- Of which in the Diana Region	☐	Percent	N.A	+ 0	+ 2	+ 5	+10	+ 15	+ 25	Every two years	Light Household Survey by INSTAT	PIU	
- Of which in Atsimo-Andrefana Region	☐	Percent	N.A	+ 0	+ 2	+ 5	+10	+ 15	+ 25	Every two years	Light Household Survey by INSTAT	PIU	
- Of which in Anosy Region	☐	Percent	N.A	+ 0	+ 2	+ 5	+10	+ 15	+ 25	Every two years	Light Household Survey by INSTAT	PIU	
- Of which women	☐	Percent	N.A	+ 0	+ 2	+ 5	+10	+ 15	+ 25	Every two years	Light Household Survey by INSTAT	PIU	
Intermediate Indicator Three: Annual municipal revenues collected in the targeted poles	☐	MGA million	3,074	3,150	3,400	3,700	4,050	4,450	4,750	Yearly	Municipalities	PIU	
- Of which in the Diana Region	☐	MGA million	1,464	1,500	1,600	1,700	1,850	2,000	2,100	Yearly	Municipalities	PIU	Excluding state subsidies. Baseline is the average in 2011-13.
- Of which in Atsimo-Andrefana Region	☐	MGA million	929	950	1,050	1,200	1,350	1,550	1,700	Yearly	Municipalities	PIU	
- Of which in Anosy Region	☐	MGA million	681	700	750	800	850	900	950	Yearly	Municipalities	PIU	
Intermediate Result (Component Two): Promoting Inclusive Growth in the Atsimo-Andrefana, Anosy and Diana Regions													

Intermediate Indicator Four: Roads Rehabilitated	☒	Km	0	0	4	8	12	68	118	Yearly	PIU	PIU	
- Of which rural	☒	Km	0	0	0	0	0	50	100	Yearly	PIU	PIU	
- Of which non rural	☒	Km	0	0	4	8	12	18	18	Yearly	PIU	PIU	
Intermediate Indicator Five: Passengers traffic, including tourists by air and sea per annum in targeted poles	☐	'1000	263	265	280	300	325	355	390	Yearly	ADEMA/sea ports	PIU	Baseline is 2013.
- Of which in the Diana Region	☐	'1000	204	205	215	230	250	270	300	Yearly	ADEMA /sea ports	PIU	Baseline is 2013.
- Of which in Atsimo-Andrefana Region	☐	'1000	58	60	65	70	75	80	90	Yearly	ADEMA /sea ports	PIU	Baseline is 2013.
Intermediate Indicator Six: Hotel rooms for establishments in the targeted poles	☐	Number	4,694	4,730	4,850	4,950	5,150	5,400	5,650	Yearly	Ministry of Tourism	PIU	This cumulative number includes all tourist accommodation, including villas. Baseline is 2013.
- Of which in Diana Region		Number	3,229	3,230	3,300	3,350	3,450	3,550	3,650	Yearly	Ministry of Tourism	PIU	
- Of which in Atsimo-Andrefana Region		Number	1,465	1,500	1,550	1,600	1,700	1,850	2,000	Yearly	Ministry of Tourism	PIU	
Intermediate Indicator Seven: Export value for the selected crops in the targeted poles	☐	US$ million	30.6	32	36	40	46	54	60	Yearly	INSTAT/ Customs in Toliara and in Antsiranana	PIU	Selected crops include cotton, dried beans, groundnuts, cocoa, vanilla, cashew, pepper and sea cucumber.
- Of which in the Diana Region (cocoa, cashew, ylang ylang)		US$ million	21.6	22	24	26	28	32	35	Yearly	INSTAT	PIU	
- Of which in Atsimo-Andrefana Region (cotton and sea cucumber)		US$ million	9	10	12	14	18	22	25	Yearly	INSTAT/Custom in Toliara	PIU	
Intermediate Indicator Eight: Increase in revenues from target cash crop production for smallholders in the targeted corridors and	☐	Percent	0	+0	+2	+5	+7	+15	+20	Every two years	Light Household Survey (INSTAT)	PIU	Smallholders supported by the Project are defined as follows: smallholders in the corridors covered by the Project and producing one of the cash crops being targeted by the Project Cash crops are: dried beans, groundnuts, fisheries

pole													
Intermediate Indicator Nine: Local Governance Index in the targeted municipalities	☐	Number	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	Municipality	PIU	LGI is a composite index developed by Government to achieve good governance by adopting 6 principles / values: efficiency, citizen participation, equity, transparency, accountability, rule of Law. The score goes from 0 to 10.
- Of which in Diana Region	☐	Number	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	Municipality	PIU	
- Of which in Atsimo-Andrefana Region	☐	Number	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	Municipality	PIU	
- Of which in Anosy Region	☐	Number	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	Municipality	PIU	
Intermediate Indicator Ten: Enterprises directly benefiting from the project	☐	Number	0	5	15	30	60	90	100	Yearly	Manager of MBIF	PIU	Includes enterprises benefiting from Windows 1 and 2 of the MBIF. Figures are cumulative
Intermediate Indicator Eleven: Annual additional sales value of firms supported by the MBIF	☐	US$ '1000	N.A.	0	5	50	150	400	1,000	Yearly	Manager of MBIF	PIU	'Additional' is defined as the difference between sales before the project support and sales after the project support.
Intermediate Indicator Twelve: People provided with Business Development Services and training programs	☐	Number	0	0	500	1,500	3,000	5,500	8,000	Yearly	PIU	PIU	This indicator is also part of the PDO Indicator 3 "Project beneficiaries". Estimates are cumulative.
Intermediate Indicator Thirteen: Farmers provided with improved inputs and equipment	☐	Number	0	0	1,000	2,500	4,000	5,000	5,700	Yearly	PIU	PIU	This indicator is also part of the PDO Indicator 3 "Project beneficiaries". Estimates are cumulative.

Figure 3: Project Results Chain



Annex 2: Detailed Project Description

MADAGASCAR: Second Integrated Growth Poles and Corridors Program (SOP-1)

1. PIC2 builds on lessons learnt during the implementation of the PIC1. PIC1 implemented a series of national level investment climate reforms and supported local economic development by implementing parallel interventions to strengthen local governance, improve the enabling environment for investment and entrepreneurship, and upgrade critical infrastructure for productive use in spatially defined sub-regions. The project helped crowd in the largest FDI project since national independence (Rio Tinto's US$1.2 bn ilmenite mine and port) and it also helped transform Nosy Be from a rapidly declining cane sugar and fishing economy to the country's premier tourism destination. PIC1 has more than 210,000 direct project beneficiaries and since project effectiveness in July 2005, Tolagnaro and Nosy Be have seen an 877 percent increase in the number of formal enterprises (to 4,711) and a 511 percent increase in the number of formal jobs (to 14,757). The number of international standard hotel rooms in Tolagnaro and Nosy Be has more than doubled in both areas since 2005; and the number of tourist arrivals—notwithstanding the political crisis—has increased by more than 60 percent. Enterprise survey data reveal that Nosy Be's tourism sector firms have increased employment six-fold during the last six years compared to 40-50 percent by similar firms in other tourist destinations in Madagascar. Since 2005, the number of people in the two regions that have access to improved water resources has more than quadrupled (to 136,000) and the number of people in urban areas with access to regular solid waste collection has more than tripled (to 129,000). Private investments and management complemented with PIC1's integrated approach to remove binding constraints to economic activity have transformed these two urban centers and surrounding rural areas. Table 2 compares PIC1 with PIC2.

Table 2: Comparison of the first and the second generation projects

	PIC1 (FY06-FY15)	**PIC2 (FY15-21)**
IDA financing	US$165mn (Phase 1: US$125mn; Phase 2: US$40mn)	US$120mn (Phase 1: US$50mn; Phase 2: US$70mn)
Spatial focus	Poles	Corridors
Regional focus	i) Tolagnaro (pop: 46,000) ii) Nosy Be (pop: 80,000-90,000) iii) Antsirabe/Antananarivo (pop: ~2mn) – but dropped early on	i) Atsimo-Andrefana (pop: 1.35mn) ii) Anosy (pop: 0.72mn) iii) Diana (Nosy Be, Ambanja, Ambilobe, Antsiranana I-II) (pop: 0.65mn)
Multi sector	Mining, tourism, agribusiness, light manufacturing, services	Tourism, agribusiness, light manufacturing, services
Approach	i) Integrated (tackling key binding constraints on national and regional levels) ii) Private sector-led approach to job creation and inclusive growth	i) Same ii) Same
Key binding constraints	Legal/regulatory environment, access to finance and skills, port and road infrastructure, energy, access to basic services	Legal/regulatory environment, coordination and organization of value chains, access to skills and finance, road infrastructure, access to basic services, air access
Type of interventions	PSD support (IC reforms, investment promotion, *ad hoc* PPPs, PCGS/matching grants, TVET, sector specific support programs), local governance, heavy and	PSD support (IC reforms, investment promotion, structured PPPs, Catalytic Fund, TVET, sector specific support programs, local governance, light infrastructure, basic services

	light infrastructure, basic services	
WBG design & implementation support team	FPD, IFC AS, HDN, PREM, SDN	T&C GP, IFC IS & C3P, E&E GP, Transport & ICT GP, Water GP, Governance GP, Agriculture GP, Education GP

COMPONENT 1: STRENGTHENING THE ENABLING ENVIRONMENT FOR ENTREPRENEURSHIP AND INVESTMENT (US$11.0 MILLION)

2. The support activities in this component will accelerate the economic recovery process by strengthening economic governance and increasing investor and private sector confidence. The project will support: (a) an investment climate reform program to improve the enabling environment for entrepreneurship and investment; and (b) a capacity building program to strengthen the government's ability to attract and channel private investments into productive infrastructure and improved services delivery. These activities will have a strong immediate contribution to the PDO by facilitating and catalyzing new private investment and job creation.

Sub-Component 1.1: Improving the investment climate (US$3.0 million)

3. A number of investment climate reforms are of high priority to boost private sector confidence and facilitate entrepreneurship and investment. This sub-component will help reduce transaction costs and increase compliance through legal, regulatory and administrative reform. The project will finance TA, training, CB and equipment to: (a) design and implement an IC reform program through inclusive PPD led by EDBM. The PPD platform will bring together key actors from the GoM and the private sector to identify, assess and agree on priority actions; (b) facilitate the administration of issuing permits/licenses/visas/etc. at the OSS in Antananarivo and in the regions through targeted procedural reforms, by empowering agents at the OSS centers, and the development and use of more effective ICT systems and services; and (c) improve dispute resolution and streamline tax administration through support activities that improve commercial justice, quicken the settlement of disputes, and facilitate business taxation rules.

1.1.1: PPD platform and DBI reforms (US$0.8 million)

4. A PPD platform will bring together key actors from the government and the private sector to identify, assess and agree on priority actions to resolve identified issues. The capacity to compile and present evidence based material is limited and seldom utilized. The project will therefore provide support towards a structured, well-organized and evidence based PPD advocacy platform to cover PSD and IC issues at the national and sector levels. The project will provide TA to EDBM to convene and support the establishment of an apex PPD platform that would include all key stakeholders in the economy. The PPD platform will have working groups covering key priority sectors. The project will finance: (a) analytical work for evidence based issues and recommendations underpinning the discussions at the PPD meetings; (b) TA to implement the recommended reforms; (c) support a secretariat within the EDBM to provide backstopping services for the apex body as well as working groups; and (d) support to undertake M&E activities and undertake communication campaigns.

5. In support of the GoM's objective of greatly improving the country's business environment as measured by the World Bank's Ease of Doing Business index (Madagascar is ranked 163 in the DB15 Report) the project will finance: (a) TA for DB reforms and technical

support to implement selected reforms across priority indicators, including: updating the DB reform memorandum and providing a detailed action plan; providing support to the current DB task force enabling it to function in support of the GoM's DB reform agenda; help the DB task force identify, prioritize and implement achievable reform measures, convene and facilitate stakeholder meetings on a regular basis; and to communicate reforms to end users. The project team will support the task force in institutionalizing the working group meetings with clearly defined TORs and a ministerial decree giving it an official mandate; and (b) regional peer-to-peer learning exchanges/study-tours and CB for key drivers of reform, using lessons from other reforming nations regionally and globally.

1.1.2: Strengthen OSS to facilitate entrepreneurship (US$1.0 million)

6. The project will help consolidate, improve and communicate recent reforms at the OSS for company registration. It would finance a process mapping exercise to identify possible gaps and opportunities for improvement, and prepare an "as is" and "to be" process simplification and streamlining, and provide resources, training and support to implement recommendations. The project will support greater use of ICT tools and services to enhance online services, to increase speed, enhance transparency, provide feedback loops (*e.g.* use of SMS technology). Careful analysis will be undertaken to determine the IT and facilities required. Building upon or use of existing GoM facilities will be encouraged, to enhance sustainability and reduce the cost of outreach. The Project will also identify areas where the current OSS systems and equipment need to be improved to keep abreast of modern technologies and best practice, using lessons from countries such as Mauritius and Rwanda. Support will include expertise to define the appropriate information system upgrades and the acquisition of additional equipment and facilities as well as upgrading the management system of information for the improved operation of the OSS.

1.1.3: Improve commercial justice and streamline taxation (US$1.2 million)

7. <u>Commercial justice</u>: Support to improve commercial justice and enforce commercial laws is a key priority to improve the investment climate. There are currently a wide range of issues, from absence of information on the applicable law and recent judgments or doctrines, limited training and exposure of magistrate, judges and practitioners to commercial laws and practice; failure to implement the existing laws, uncertainty, wide discretionary powers and weak capacities across the board, which means that investors are not certain about their rights and obligations. A major weakness is dispute resolution where traditional courts take a long time to dispense justice and there are no credible or efficient ways to resolve such disputes. Currently the major international investors also have unresolved investment disputes, which send a negative signal to would-be investors. The project will finance: (a) TA to strengthen the legislative and regulatory framework governing investment, electronic commerce, competition, contract enforcement, arbitration/mediation, appeals on commercial disputes, inspections and enforcement, and provide resources for stakeholder consultation as well as dissemination of recommendations and implementation of reforms; (b) technical work to help modernize the functions of the commercial courts, including: organizational structure, selection of magistrates and staffing plans; case management techniques, leveraging the roll-out of the Info TPI software; monitoring and evaluating performance of judges and court administration staff; collection and analysis of case-related data; (c) publication and dissemination of court procedures, forms and judicial decisions; and organization of the office of the registrar; (d) training of judges and court

staff in specialized matters, such as case management techniques, data collection and international commercial law, as required based on a detailed training program to be prepared with project financing; (e) digitization and dissemination of key documents on commercial law, using the CN Legis platform, as well as other specialized online services, services (online access to legal information) and hardware (computers) to develop and strengthen the commercial law library; (f) acquisition of information systems to modernize the registry and to have key information required in business transactions readily accessible to the public; (g) upgrading of the Ministry of Justice website to cover publication of decisions of the commercial chamber, information on procedures for the chamber and appropriate forms; (h) technical support, training and provision of targeted resources to strengthen the tribunal de commerce, as well as the Madagascar Arbitration and Mediation Center (CAMM) and to improve its alternative dispute resolution mechanisms; and (i) CB and peer-to-peer learning opportunities for judges, magistrates and practitioners dealing with commercial cases and disputes.

8. Streamlined taxation: This activity will support reforms to stimulate formalization and SME tax compliance, and improving the administration of the tax regime. The project will finance: (a) analytical work on informality and taxation, reviewing the tax policy (including incentives) and administration (including procedures, compliance costs, and enforcement); (b) support to improve and strengthen the speed and effectiveness of the tax appeals process, reducing discretion and enhancing predictability and certainty for taxpayers; (c) TA to develop and publish key documentation which will support taxpayers' compliance, including vulgarization of technical documents, guidance notes, etc.; (d) support for the consolidation, codification, publication and dissemination of key tax legislation, regulation and administrative doctrine to enhance predictability and compliance; and (e) training and awareness–raising for tax enforcement personnel as well as taxpayers, including SMEs, to enhance compliance and transparency.

9. **PIC2-2:** The investment climate reform program will mainly be implemented in Phase I but some support will likely be continued under Phase II depending on the priorities of the GoM and the progress made at by the time Phase II is approved.

Sub-Component 1.2: Promoting PPPs and private investment (US$8.0 million)

10. Leveraging private capital, expertise and networks are essential to stimulate economic recovery and growth in Madagascar. This sub-component will finance TA, CB and equipment to: (a) build capacity for investment promotion in the newly autonomous EDBM; (b) establish a legal and regulatory framework for public private partnerships (PPP) and build public capacity to design PPPs; (c) provide TA to support the development of Ehoala Park—an existing joint venture between Rio Tinto and GoM as part of the Ehoala Port concession supported in PIC1—with the aim of promoting private investment in Tolagnaro; and (d) establish a catalytic fund with the aim of crowding in private investment in the three target regions.

1.2.1: Building capacity to attract and manage private investment (US$3.0 million)

11. This activity will improve the public-private interface for investors and build capacity to strategically invite and manage more private participation in infrastructure development and shared services delivery. First, this activity will build capacity in EDBM and relevant GoM

ministries to promote and facilitate private investments in key sectors such as agribusiness, tourism, light manufacturing, and IT-enabled services. The project will provide TA to undertake FDI policy and legal review, including design of a smart incentive regime for the country and develop concession frameworks in tourism and agribusiness. It will also expose GoM to international good practice; advise on mandate and key responsibilities and linkages with other government agencies whose work impacts on investment and competitiveness. TA, CB and equipment will be financed to improve investor screening, tracking, facilitation and after-care. It will support a number of activities aimed at addressing weaknesses in Madagascar's investment code and regime, provide advice and support to key investment promotion and facilitation agencies, and help to enhance FDI and domestic investment which is critical for job creation and economic growth.

12. The following support activities would strengthen EDBM capacity to further facilitate and promote investment in the tourism sector: (i) facilitate the creation and implementation of a tourism investment promotion strategy; (ii) support EDBM and its partners to develop tourism as an arm of its investment promotion agency in collaboration with the national tourism agency. Key areas to develop include: a) information dissemination to investors to answer queries and develop in-house research capacity; b) investor facilitation, including creating a "lead-tracking" database, to ensure that the investor finds open doors and answers to their questions; c) proactively seek suitable investors; d) produce high quality documentation (regular sector information notes and key documents), facilitate site visits; and participate in and organize tourism investment conferences; and e) facilitate and promote investment in the Atsimo-Andrefana, Anosy and Diana Regions.

13. Second, the project will provide TA and CB to: (i) support the development and implementation of an institutional and regulatory framework to promote in particular PPPs in infrastructure and shared services. In line with international best practices, the institutional framework will include, among others, a list of criteria related to selection of priority projects to be financed through a PPP model; guidelines for funding and support of project preparation; guidelines for monitoring and management of the fiscal risks that arise from PPP projects, including provisioning if appropriate; and creation of a coordination mechanism between GoM and other private and public stakeholders. It will also provide TA to draft a PPP law (relevant for all PPPs including concessions) with one set of rules, creating the relevant PPP institutions, adding missing PPP structures and types of financing, including ensuring that unsolicited proposals are subject to competition. This structured approach feeds in with the GoM's ambition to build permanent expertise rather than continue with an ad hoc approach as in the past where separate line ministries pursued different ventures with the private sector without a coherent policy or strategy. GoM took the first steps to facilitate a structured approach to PPPs in July-August 2014 by passing legislation to centralize the authority over the SOE portfolio to the Ministry of Finance and Budget. The aim is to improve financial management and instil more fiscal discipline. The Ministry also established a dedicated PPP unit. The objective in PIC2-1 of the SOP is to help GoM build capacity of this PPP unit to reflect international practices in developing a PPP program. The objective in PIC2-2 of the SOP is to later finance transaction support for the implementation of a number of pilot projects within the new framework.

14. At the regional level, the project will finance (a) TA to GoM to accelerate the development of Ehoala Park—a regional multi-purpose mixed industrial, logistics and commercial facility—as part of its concession agreement with Rio Tinto for Ehoala Port. This activity will strengthen GoM's technical expertise and institutional capacity to review and support the development of the park as well as produce a commercial feasibility study and regularly review investment proposals; and (b) TA and CB for improved service delivery linked to primary and secondary solid waste collection services and water standpipe management in urban and semi-urban areas. These activities will draw upon the experiences gained under PIC1 and bring in stronger involvement by the private sector and local associations in the management of these services. An estimated 60 percent of urban dwellers, or 150,000 in Toliara and 84,000 in Antsiranana, will ultimately benefit from improved primary and secondary collection services. An estimated 330,000 citizens will also benefit from improved service quality of potable water.

15. **PIC2-2** would build upon the achievements and lessons learnt from PIC2-1 and focus on: supporting GoM select a shortlist of viable demonstration projects for PPPs, preparing pre-feasibility for a few of those projects, and preparing feasibility studies and supporting the implementation for a couple of the most financially viable PPP pilot projects with the aim of improving service delivery and channeling private investment into infrastructure development.

1.2.2: Madagascar Business and Investment Facility (US$5.0 million)

16. The MBIF will expand economic activity within the three target regions by identifying opportunities for matching grants to jump-start or accelerate investment and production through funding of services, equipment, and civil works, thereby increasing productivity, competitiveness and access to markets. It will mainly support tourism, agribusiness and light manufacturing development, which are all employment-intensive sectors, but other productive sectors are also eligible to participate. The Facility will support business linkage investment from commercial tourism and processing/manufacturing firms to smallholders engaged in agribusiness, other primary production and services (including financial services), executed by the private sector or the public sector in partnership with the private sector. All sub-projects funded would have to generate some element of public goods benefit.

17. The MBIF will be demand-driven and allocations will where practicable be made through a competitive selection process based on demonstrated evidence of satisfactory economic returns through upgrading of production, expansion of competitive productive capacity and improved infrastructure. In line with international good practice, the MBIF will be managed by a competitively selected private Fund Manager on a performance-based contract. Beneficiaries will need to have capacity and authority to sign a grant agreement with legal obligations to receive grants.

18. The MBIF will be a different vehicle from the current pilot matching grant program that has operated since 2012 and is about to close in PIC1 regions. First, it will have more resources since it will cover a much larger geographic area with more prospective investment projects. Second, it will be implemented during a longer time period with an initial stage of two years with the probability of a two-year extension in stage 2. Third, it will have broader sector coverage and will also include public/private projects and youth projects in addition to private commercial business proposals. Fourth, it will provide grants for small civil works with strong economic and

social returns unlike the pilot that focused on business development services only. Finally, and importantly, it will have a competitively hired independent and specialist management team.

19. The relevant indicator of appropriate MBIF size is the potential market for eligible subprojects that justify grants. The pilot fund that has been operating since 2012 provides one pointer for estimating demand. This fund awarded 49 grants in 18 months at a value of about US$2 million (of which about 50 percent are expected to be disbursed). At the time that the Fund stopped receiving applications the application rate had started to accelerate significantly, resulting from a broader understanding of its purpose and procedures. Based on the various lessons of experience in avoiding implementation pitfalls in the pilot program, the acceleration of interest in it, and the significantly broader sector and geographical coverage, and intended life, of the proposed MBIF, the size of funding is considered appropriate. At this funding level over the intended project life it is expected that management and overhead costs will be limited to an acceptable percentage of total funding.

20. The different types of subprojects and subsectors potentially benefitting from MBIF grant funding will require different types of specialization and organization and time commitment throughout the preparation, evaluation, disbursement and monitoring process. This will especially be the case for the greater number of subproject stakeholders such as with the joint public/private subprojects. To address these different specializations and implementation requirements three grant windows will be available under the MBIF, although these will be phased in as experience is accumulated (see below). The three windows will be as follows:

21. Window (1) will provide grants to eligible private commercial subprojects, or clusters/value chains of linked private enterprise subprojects, that can generate benefits beyond private profit in terms of spillover effects (technological and financial) to a wider community within any growth pole/corridor area. Private enterprises are defined as either enterprises with greater than 50 percent private ownership, or public enterprises under formal management control of a private company, through contracts, licenses, leases, etc. The maximum grant under this window will be about US$150,000, based on the likely average cost of business services and equipment, with an average of about US$80,000.

22. Window (2) will provide grants across-sector to sub-projects, including micro-businesses, proposed by groups of young adults aged 16-35. The maximum grant under this window will be US$10,000 reflecting the very small or micro-scale of enterprises assisted, with an average of US$6,000. To qualify for the grants, young adults will have to organize in small groups and submit a proposal for a grant to cover training programs and tools and materials they need to run a business, either together or on their own. A similar grant program was implemented in 2008 in Northern Uganda and results were tracked over four years for a rigorous impact evaluation. While facilitators were available to help youth organize into groups, build budgets and apply, these facilitators played no role after the application phase, and there was no formal mechanism of follow-up or accountability for the funds after the grants were distributed. Groups were responsible for creating a five-person management committee and doing their own budgeting and allocating. The money was given to the group, and the management committee distributed the money according to the group's plan. The average grant was US$7,497 per group, or about US$382 for each group member, with the money deposited in a joint bank account. On a per-person basis, grants generally ranged from US$200 to US$600; or about one year's income for a

young adult. Fears that the money would be mismanaged were unfounded since 76 percent of those who received the money enrolled in vocational training compared to 15 percent of the control group. After four years young adults who had received the grants were earning 41 percent more than peers who did not receive grants. One reason may have been that those who received the money were 65 percent more likely to be working in a skilled trade such as carpentry, tailoring, metalworking and hairstyling. Those who received the grants were also 34 percent more likely to register a business and 40 percent more likely to pay business taxes and keep business-related records.

23. Window (3), which would be introduced in PIC2-2 only, would provide grants to eligible public-private subprojects proposed by a formally structured grouping of one or more organizations including combinations of government agencies, communities, district council entities, business associations and individual or grouped private businesses within a growth pole area. The MBIF Management Unit would also provide from its own resources a special coordinating role in complex projects. The maximum grant would be US$250,000 and the expected average grant approximately US$175,000 based on likely requirements of an infrastructure/enterprise cluster. However the maximum could increase up to a US$1 million in cases of exceptionally high expected economic and social returns. An example of such a project is a major new hotel developer or agribusiness processor that together with local communities agrees to rehabilitate a secondary or tertiary road which crowds in a new investment that generates a lot of economic activity and benefits from shared infrastructure.

24. The grant windows would not receive prior allocations of funds and grants would be approved on the basis of commercial and/or economic return up to the limit of the total grant budget. However, special calls for proposals for priority sub-sectors and beneficiaries will be allowable, and the table below, provides a rough guide to the number of projects, amount of grants and co-investment, and direct and indirect jobs that the MBIF may generate. Copayments by grant recipients will vary as a percentage approximately according to the public goods element of the sub-project. Provisionally, the upper limit on the total grant share will be 50 percent of total eligible investment in the case of private enterprise subprojects (window 1), 100 percent of total eligible investment in the case of youth projects (window 2), and 80 percent of total eligible investment in the case of public/private subprojects (window 3). Thus public-private subprojects will have lower copayments than private subprojects, although both types of subprojects must have some public goods benefits. Copayments on public goods projects (such as feeder roads or local power distribution) are essential because of the need to ensure public sector accountability.

25. The coordinating role of the MBIF Management Unit will be important to subproject development. To assure its effectiveness eligibility ‘boundaries’ will be set to avoid excessively complex, time consuming, subprojects (such as feeder road construction/ maintenance or agricultural extension services) unless such assistance is directly geared to specific commercial outputs and is under the control of an anchor firm (such as the case of sugar out-grower links to a central processing plant). All subprojects will be designed on a practicable business model. Other more general assistance needs will be addressed by the PIU through other components of the PIC2 project and an operational division of labor would be established between the PIU and the MBIF for this purpose so that they complement each other

26. Private commercial subprojects (window 1) will be fast-track and expected to be prepared and implemented in significantly less time than those of window 3, and require considerably less outside assistance in organization and preparation. Youth projects (window 2) will require mentoring during preparation. Table 3 illustrates how a total of 35 window 1 sub-projects plus some 100 window 2 micro-projects are likely to be funded under PIC2-1. The grants would generate an estimated 2,900 direct jobs, self-employment and youth in TVETs.

27. The MBIF would be phased in in order to provide a limit on the rate of disbursement and to allow a learning process to take place for more organizationally complex subprojects. The Fund as a whole would have a four year life, coming on stream at the start of year 2 of PIC2-1 and closing out at the end of year 5 of the SOP. The phasing of the three windows is proposed as follows:

28. **PIC2-1:** Window 1 (commercial businesses) will proceed initially, building on the existing grant demand and the experience with the pilot grant program. It will be accompanied by Window 2 for youth projects, which are likely also to experience relatively high demand in the short run. Both are relatively fast-track and commercially oriented, and could effectively use a competitive selection process (e.g. a business plan competition) although youth projects will require greater upfront organization and mentoring. Of the total funding available approximately US$5.0 million will be the disbursement target in this phase.

29. **PIC2-2:** A third window will be included in Phase II to allow a learning process and limit initial disbursements. Windows 1 and 2 will be relatively less complex organizationally than window 3 and they will operate continuously over the two phases whereas window 3 will require up-front coordination of multiple stakeholders and only operate in Phase II. Window Three will provide grants on a continuous basis largely to eligible public-private projects proposed by a formally structured grouping of one or more organizations. These could include a combination of public agencies, communities, district council entities, business associations, farmers associations and private businesses within a growth pole/corridor area. Examples of potential coalitions include a private processing plant applying together with a farm association ('public' is here loosely defined to include associations/cooperatives) or a public agency joining forces with a private entity to strengthen service delivery. The maximum grant for this category will be US$1.0 million in exceptional cases where there are very high economic and social returns; but more generally US$250,000 with an expected average grant of approximately US$175,000 based on the likely requirements of an infrastructure/enterprise cluster.

Table 3: Estimated impact on investment and job creation in PIC2-1*

	Window 1	Window 2		Window 3	Total
		Standard	Large		
	PIC2-1&2	PIC2-2	PIC2-2	PIC2-1&2	
	35 [35]	 [10]	 [3]	100 [50]	
Expected average size of grant (US$'000)	80	175	600	6	
Total expected grants (US$'000)	2,800 [2,800]	 [1,750]	 [1,800]	600 [300]	
Expected average counterpart investment (US$'000)	75	65	150	0	
Expected total investment (US$'000)	5,600 [5,600]	 [2,400]	 [2,250]	600 [300]	6,200 [10,550]
Expected number of direct jobs supported	900 [900]	 [1,500]	 [1,200]	2,000** [1,000]**	2,900** [4,600]**
Expected number of indirect jobs supported	2,350 [2,350]	 [1,500]	 [1,200]	0 [0]	2,350 [5,050]

* [Phase II] ** Including youth entrepreneurs in education

COMPONENT 2: SECTOR BASED GROWTH IN THE ATSIMO-ANDREFANA, ANOSY AND DIANA REGIONS (US$35.5 MILLION)

30. This component is composed of mutually-reinforcing activities that are specific to each select region and that aim to promote in particular tourism and agribusiness development and improved service delivery to poor populations. It adopts a strong market-driven approach to the development of the sectors partly drawing on the network and expertise of IFC Investment Services. In the Atsimo-Andrefana Region, the activities of the project will mainly be concentrated along rehabilitated segments of national road (RN9) leading north of Toliara through commercial agricultural heartland and parallel with the coast dotted with small hotels and eco-lodges and near some popular natural parks. In the Diana Region, the project will mainly be concentrated along the RN6 transport corridor between Ambanja and Antsiranana. The project will build on the PIC1-funded agenda in the Anosy Region, supporting the development of Ehoala Park and the agribusiness sector.

Sub-Component 2.1: Strengthening local governance (US$3.5 million)

31. A strong capacity building program at the local level in the first phase will improve service delivery and render expected outcomes of future project interventions more sustainable. The objectives of the following activities will be to: (a) strengthen local governance and services delivery in and around urban centers; (b) improve collection and management of local taxes; and (c) promote partnerships to support implementation of local development plans. Project interventions will be based on a proven model (Opération Communale d'Appui Intégré, OCAI) that has been implemented in the Governance and Institutional Development Project (PGDI/PGDI2, P103950) through the Fonds de Développement Local (FDL). The model is based on participatory budgeting and citizen engagement, revenue management and local public service delivery linked to management of land records (communal land office and decentralized

land tenure services) and justice. It allocates and monitors the use of modest grants to local authorities to support change management.

32. **Strengthen institutional capacity at the urban/rural commune level (US$2.5 million).** The project will finance TA, training, CB, and provide grants for equipment and works to local authorities to implement the OCAI model in communes with project-funded tourism and agribusiness value chains activities. It will also build capacity to improve management of local land records and public administration linked to regulatory enforcement and service delivery. The OCAI approach will be implemented in partnership with FDL and the Institut de le Décentralisation et du Développement Local.

33. **Strengthen institutional capacity at the regional level (US$1.0 million).** The project will finance: (a) TA, training, CB and equipment to implement regional development plans (PRD, SRAT) and facilitate the issuing of construction permits and business licenses in local OSS offices; and (b) TA and CB to help local and national authorities develop cross-regional coordination and improvement of the institutional capacity of local development and governance.

34. **PIC2-2**: While the first phase will seek to restore public administrative capacity for local service delivery, the second phase will allow for gradual improvements based on more long-term institutional capacity building objectives outlined in regional development plans focusing on effectiveness of local services and continuous implementation of OCAI model interventions.

Sub-Component 2.2: Improving services delivery and shared infrastructure (US$19.0 million)

35. This sub-component will: (a) increase access to improved water sources and sanitation benefiting the private sector but predominantly poor populations; and (b) remove a few critical urban road bottlenecks that are expected to worsen further with increased traffic linked to increased economic activity. The expected increase in economic activity resulting from new investment crowded in by project interventions must not come at the expense of poor populations' access to services. Urban populations in Antsiranana and Toliara are expected to expand rapidly—they nearly doubled in Nosy Be and Tolagnaro during the course of PIC1—as a result of natural population growth and through rural-urban migration.

2.1.1: Upgrading urban road (US$6.0 million)

36. The project will finance public works to rehabilitate portions of urban roads that are identified by forthcoming feasibility studies. Preliminary assessments based on urban development plans indicate high priority sections that will be considered among others. First, in **Toliara**, a total of 5.0km: (a) the urban road link between RN7—the national road between Toliara and the capital, which today is the only transport corridor for tourists visiting the south of Madagascar—and RN9—the national road which is currently being rehabilitated by AfDB/OFID and along which this project will concentrate sector support; (b) the urban access road to Toliara Port, to facilitate access and distribution of traded goods; and (c) the access road to the embarkation area for the Anakao ferry, which is the second most important regional tourism site. Second, in **Antsiranana**, a total of 7.0 km: the bypass road that links RN6 with the Antsiranana Port, to avoid the increasing volume of traffic of heavy trucks in the city center where the

hospitality sector is centered. The works will include side-road drains to reduce the most common cause of local road deterioration. The final segments of critical road rehabilitation schemes will be carefully selected based on economic prioritization in consultation with the municipal authorities, local master plans (PUDi), traffic density and a feasibility study. The project will also finance a feasibility study for the rehabilitation works in Phase II of approximately 4.5 km of urban roads in Toliara and 7.0 km of urban roads in Antsiranana that will be ready for procurement upon Phase II approval. The works will be completed within the first 18 months of the implementation period.

37. **PIC2-2:** The project would finance public works for the additional 4.5 km of additional urban roads in Toliara and 7.0 km of urban roads in Antsiranana, including side-road drains and improvement of green spaces. The objective would be to improve access to main commercial centers, markets, hotels and thoroughfares that would create a more favorable and safer urban environment for both citizens and tourists. It would also make new investment in the hospitality industry more attractive. Large sections of the most trafficked urban roads in the two regional capitals, in particular in Toliara, are currently in poor condition, with potholes rendering access particularly difficult at night, and with heavy flooding common during the rainy periods due to the lack of drainage facilities.

2.1.2: Improving access to water and sanitation (US$13.0 million)

38. The main urban areas along the corridors are experiencing rapid population growth. The expected inflow of tourists and new investments in hotels and production facilities will further strain water sources and water distribution networks that are operating at full capacity with significant supply shortages. The current water distribution networks cover 80 percent of the population in Antsiranana and 56 percent of the population in Toliara but insufficient water supply leaves many neighborhoods without water for long periods of time. Weak management of public standpipes is also reducing the supply of water to poor populations. Thus, convening factors of: (i) increased demand for water from growing urban populations; (ii) an expected increase in demand from new businesses like hotels and agribusiness processing plants resulting from project support activities; and (iii) reduced supply of water due to underinvestment in water sources and trunk pipe distribution as well as weak management of public standpipes motivate public investments to improve the supply and distribution of water.[9]

39. In **Toliara**, preliminary identification studies highlight priorities such as: (a) enhance water production by repairing and equipping the two existing boreholes to produce at full capacity of 18,000 m^3/day and thereby cover demand at least up until 2020; (b) rehabilitate or construct a new 10 km long main pipeline to transfer an additional 597 m^3/hour from the production sites in Miary to the new storage site in Antanamitarana; and (c) construct a new storage of 1,500 m^3 in Antanamitarana to resolve a network hydraulic misbalance. The final selection of activities will improve the reliability of water service delivery and guarantee 24-hour supply instead of the current 2-3 hours per day. It will especially benefit the 97,000 inhabitants

[9] Given extensive support in Tolagnaro in 2006-14, no new infrastructure investments are foreseen for the Anosy Region but TA will be provided on a continuous basis to maintain or improve current services levels.

who get their water from standpipes and it will also increase the number of people with access to improved water sources by up to 69,000.

40. In **Antsiranana**, the project would also finance: (a) public works to replace the barely functional 26 km main pipeline from the catchment site in Joffre Ville to the water treatment plant (WTP) in Ambariobe-Antsiranana; (b) a feasibility study and public works to replace the old and decrepit WTP in Ambariobe to increase capacity from 12,000 m^3/day to 27,000 m^3/day to meet today's peak demand of 26,000 m^3/day; (c) construct 60 new standpipes to serve poor households; and (d) provide TA to ensure that the standpipes are properly managed and financially sustainable. Again, the exact location and design will be determined in feasibility studies following effectiveness. Any new treatment plant will need to meet water demand for the next ten years and an additional 56,000 inhabitants is expected to benefit from access to improved water sources.

41. The project will finally finance TA to JIRAMA to elaborate and implement a local Quality Management Plan with the aim to improve its technical and commercial performance, including by improving bill processing and collection, enhancing technical efficiency (non-water revenue), and improve quality of services (response time to client request/complaint, communication, etc.). The objective is to make the expected improvements in capacity and service levels sustainable and the model will be replicated from PIC1. These services will be provided in the Anosy Region to maintain service levels achieved through PIC1interventions.

42. The outcome will be improved access to potable water both for productive use in the private sector as well as for urban poor populations. There will be an improvement in service quality for those already served by JIRAMA (>205,000) and an increase in the number of people with access to improved water resources by 125,000. Decentralized water supply solutions will also benefit specific unserved rural locations like Anakao and Ankarana.

Sub-Component 2.3: Promoting sustainable tourism development (US$6.5 million)

43. This sub-component will: (a) improve the enabling environment for tourism sector development at the national level; and (b) promote tourism development in the Atsimo-Andrefana and Diana Regions through targeted interventions that increase the competitiveness of these destinations. The Diana Region is already the country's most visited region (outside of the capital) with 204,200 visitors in 2013; and the corridor between Nosy Be and Antsiranana is referred to as the 'northern tourist circuit'. Toliara in Atsimo-Andrefana is the end point in the second most visited tourist circuit which begins in Antananarivo. The city hosted 58,500 visitors in 2013. Both regions have strong potential to improve management of tourist attractions and attract domestic and foreign direct investment in the hospitality sector in particular linked to eco-tourism in national parks and in beach tourism.

44. The tourism development activities will follow a phased approach. The first phase will develop and implement a sector recovery strategy following five years of political turbulence. The objective is to strengthen capacity for strategic tourist development and create conditions for private sector investments. The objective is also to support the local private and public sectors improve management and realize the commercial potential of key tourist attractions and prepare for the procurement of critical public infrastructure works that in the second phase will be

launched to improve access by land, air and sea, and target an expansion of hotel investments and implementation of a lodging grading system. The expected outcomes are: (a) more private investment in the tourism sector; (b) an increase in the number of tourist arrivals; (c) an increase in the number of days spent by tourists in the target regions; (d) an increase in the daily spending by tourists; and (e) an increase in the number of jobs in the tourism and associated service sectors.

2.3.1: Strengthening the enabling environment for tourism development (US$2.5 million)

45. **Building capacity for strategic tourism development (US$0.7 million).** The Malagasy tourism sector lacks a vision and market oriented sector coordination for sector development. GoM needs to elaborate a sector friendly policy that will promote sustainable and higher quality investment. This sub-component will finance: (a) TA and CB for the Public-Private Tourism Platform that convene the main stakeholders and for the Ministry of Tourism to upgrade its statistics and information system and update the tourism policy/master plan and the legal and regulatory framework to promote investment and create an enabling environment for development of the tourism sector; (b) TA to conduct a functional review of the Madagascar National Tourism Office (ONTM) to help it develop and implement a sustainable business model and refine the country’s marketing strategy for the twin goals of increasing arrivals from established markets and identifying and targeting new markets.

46. **Improving competitiveness in the air transport sector (US$1.8 million).** High cost and unreliable air transport services are key constraints to the development to Madagascar’s tourism sector. Lowering cost, increasing flights and improving services both to and within Madagascar are essential to develop the tourism sector. Limited liberalization of air services has restricted the number of long haul carriers servicing the country. Unreliable domestic air transport is often the only realistic option to access the island’s main tourist attractions. This sub-component will improve international air access by financing: (a) TA to develop a National Airport Master Plan (including a vision and categorization of the airport network), identify investment priorities, develop an airport management scheme with specific focus on airports within the targeted regions that complies with International Civil Aviation Organization (ICAO) standards; (b) TA to develop the National Air Transport Strategy that will: (i) define the country vision in regards to implementing the liberalization policy endorsed by the government under the civil aviation law (2013) and the Yamoussoukro Declaration with the goal of developing the air transport sector (passengers and cargo); and (ii) clarify the roles of the public and the private sector, including the evaluation of main stakeholders; (c) CB at the Civil Aviation Agency (ACM) to enhance the technical oversight capacity of the sector according to best practices of the International Civil Aviation Agency (OACI); and (d) TA to promote attractiveness of the Madagascar Air services providers of countries whose carriers have expressed interest in serving the country.

47. The outcome will be further air transport services liberalization and more competition among long haul and regional carriers and a lower risk for Malagasy air carriers to be banned from accessing international markets due to weak technical oversight. This will help develop the tourism sector and increase the availability and lowering the cost of air cargo services.

48. **<u>PIC2-2</u>**: Phase II activities would build upon the activities in Phase I and provide additional TA to enable a further increase in the competition level within Madagascar's air transport market. Based on the findings of the strategic positioning exercise for ADEMA and Air Madagascar undertaken in PIC2-1, the Project would finance TA to assist the GoM recruit a transaction advisor for IVATO Airport and possibly other major airports, assist the Ministry of Transportation and the Civil Aviation of Madagascar strengthen their regulatory capacity and devise and implement the strategic positioning strategy for Air Madagascar;. It would enable GoM to attract private operators in the provision not only of air services domestically but also in the financing of much needed airport infrastructure and aviation supporting infrastructure. Besides the immediate impact on the air transport and tourism sectors, the support program would help reduce the fiscal burden imposed on GoM through its SOEs.

2.3.2: Promoting regional tourism sector development (US$4.0 million)

49. This sub-component will support the development of integrated tourism destinations in the Atsimo-Andrefana and Diana Regions by addressing constraints pertaining to underdeveloped tourism products and weak management of key tourist attractions, limited supply and quality in the accommodation sector and weak local skills. The Project Preparation Advance recently financed a demand assessment, site identification and methodological framework for investment promotion and marketing aimed at encouraging resort/hotel development projects in the Atsimo-Andrefana and Diana Regions. The GoM launched an expression of interest supported by the investment promotion framework which attracted responses from twelve hotel investors/management companies as well as four investors/managers. Site visits are being organized in September-October for these investors and the project will continue to work with these prospective investors to facilitate deals throughout the implementation process. Regional tourism sector development will be promoted by:

50. **Improving management of popular tourist attractions, diversifying tourism value propositions and enhancing local value addition (US$3.0 million)**. The project will finance: (a) TA to support integrated tourism development plans in the Atsimo-Andrefana and Diana Regions and help align regional objectives with the national strategy to promote private investment; (b) TA, equipment and public works to upgrade and strengthen management of select tourism attractions (*e.g.* Mikea and Tsimanampetsotse National Park, Nosy Hara, Ankarana and Montagne d'Ambre National Parks, Windsor Castle, Montagne des Français and Mer D'Emeraude), including by erecting visitor and interpretation centers, signage, interpretation and the development of hiking trails and site development; (c) CB and public works to strengthen artisans, support local product design and rehabilitate artisanal markets; (d) TA and CB of tourism workers and entrepreneurs in the hospitality industry and raise workforce professionalization standards through local TVET and tourism schools; and (e) TA to improve revenue generation and management of select national parks, through the promotion and facilitation of ecologically sustainable investment within national parks, and the design and implementation of a commercialization strategy that enables Madagascar National Parks (MNP) improve ecological integrity and financial sustainability.

51. **Promoting and marketing regional destinations (US$0.5 million).** The Regional Tourism Offices (ORTs) have a critical role to develop and market regional destinations. The ORTs in Antsiranana and Toliara do not currently have the technical and financial capacity to

properly promote the destinations abroad. The project will finance: (a) TA to improve management in the ORTs and strengthen payment compliance for the small tourist fees collected by hotels; (b) TA for promotion material and implementation of small scale marketing plans in collaboration with ONTM; and (c) TA to create a platform for collaboration between local hotels and tourism operators to facilitate joint reservation tools and joint local procurement.

52. **Preparing feasibility studies for improved access by road, air and sea to main tourist attractions (US$0.5 million).** The upgrading of secondary roads and port infrastructure is critical for the development of Atsimo-Andrefana as a tourism destination. Highly popular tourist attractions such as Salary Bay, Anakao and Saint Augustin are almost inaccessible by rural road. Toliara is increasingly frequented by cruise ships but amenities and facilities are poor. The project will finance feasibility studies for public works to be launched under Phase II with the aim of facilitating and enhancing access to key tourism sites

53. <u>PIC2-2</u>: Conditional upon the feasibility studies, Phase II would finance the following infrastructure: (a) the rural access roads along Toliara-Anakao and Toliara-Salary in Atsimo-Andrefana and the Saline Road in the Diana Region; (b) the reception area for cruise ship passengers in Toliara; (c) the landing jetty in Salary and Anakao to facilitate cruise ship access, and (d) river crossing between Anakao and Toliara (*i.e.* the river delta that divides the region).

Sub-Component 2.4: Promoting sustainable agribusiness development (US$6.5 million)

54. Madagascar's agribusiness sector in the Atsimo-Andrefana, Anosy and Diana Regions has expanded rapidly throughout the political crisis. Between 2008 and 2013—covering roughly the period from pre-crisis to post-crisis—the volume of agriculture and seafood exports by regional seaports increased by 267 percent in the Diana Region, 228 percent in the Atsimo-Andrefana Region, and 57 percent in the Anosy Region. In 2013, the value of agribusiness exports by sea from the three regions reached nearly US$150 million. The regions' total exports are significantly higher when output exiting by air freight (*e.g.* lobster/prawn, essential oils, vanilla, and chocolate) or from seaports in other regions (*e.g.* regional commodities processed in Antananarivo and shipped from Toamasina Port) are included. The dynamism and expansion in the sector is partly due to the entry of new private investors and entrepreneurs—domestic as well as foreign—who are starting to rejuvenate dilapidated production assets and organize supply chains previously controlled by bankrupt or collapsed state-owned companies. From cotton in the southeast to sugar and cocoa in the north, the scope to generate more jobs, better livelihoods, and more foreign exchange is considerable.

55. This sub-component will support growth and competitiveness in a number of agribusiness value chains in which Madagascar has a proven comparative advantage, and where market dynamics indicate strong investment and poverty reduction potential. These include value chain support programs that will help unlock inclusive private investments to increase quality, productivity, sustainable production and local value addition around the cotton value chain in the Atsimo-Andrefana Region (with 50,000 producers and 6 formal operators), the pink pepper and dry beans value chains (with 5,500 producers and 5 formal operators) in the Anosy Region, and the cocoa value chain in the Diana Region (with 33,000 producers and 8 formal operators). Other value chains will also benefit when there are strong synergies that can be generated with the lead value chains of the program. Such synergies are evident, for example, for pepper and vanilla

which are frequently intercropped with cocoa plantations in the Diana Region; and for groundnut intercropped with cotton plantations in the Atsimo-Andrefana Region. This could also include support to produce fodder for the planned export-oriented feedlot and abattoir project in Ehoala Park once it is announced.

56. The support activities will both strengthen the enabling environment for agribusiness development at the national level and implement a series of integrated value chain support programs at the regional level. The outcomes will be increases in private investment, exports, local value addition and livelihoods for value chain participants. The development of agribusiness is impeded by numerous constraints. First, the poor state of the national road network leaves large proportions of local communities without market access. However, WBG, OFID, EU and AfDB funding will rehabilitate many of these national roads in the coming few years. Second, some key rural and feeder roads are also in disrepair which leaves smallholders vulnerable to weather conditions and many communities are cut off from main roads and markets. For example, some of the best cocoa in Haut Sambirano never reaches the market or is sold at below market price to any operator that accesses the landlocked communes. Third, the policy and regulatory framework for agribusiness is largely out of date; and it is often weakly implemented and enforced. Fourth, standard control entities such as Direction de la Protection des Végétaux–DPV, quality control and export authorization offices have modest capacity or are largely missing. Fifth, rural insecurity is a problem that limits capital investment and leads many operators to rely on contract farming and/or ad hoc collection from smallholders. Sixth, the lack of data and traceability hampers development of commercial value chains and export markets. Appropriate data records are essential to develop standards and certifications, which are often required to raise value addition, brand recognition, and improve price premiums. There is generally high demand for certified products and therefore real potential to develop specific, tasteful and organic products in Madagascar, including the elaboration of "terroir" oriented specifications and organic labels. Seventh, there is insufficient collaboration and organization of most value chains. Finally, there is much need to improve knowledge of good post-harvest operations. The sector specific support activities outlined below will be complemented by the MBIF that will support private investment and entrepreneurship more broadly.

2.4.1: Strengthening the enabling environment for agribusiness value chain development (US$2.5 million)

57. The project will help build capacity and strengthen market orientation of a few key support institutions that provide inputs, generate knowledge, regulate, enforce, organize and monitor the value chains. It will allow for a more efficient allocation of resources and help create more sustainable income opportunities for farmers through the introduction of a market oriented vision for value chain development and effective support mechanisms to promote good post-harvest operations, value addition, and trade. The project will finance TA, CB and minor equipment to: (a) support the Ministry of Agriculture and the Ministry of Trade to review and update the legal and regulatory framework covering key value chains; support their ability to monitor and enforce this framework; and strengthen data collection (of prices, production volumes, traded values) and dissemination mechanisms in collaboration with Customs and INSTAT. The objective is to introduce growth inducing regulations at the value chain level around marketing, licensing of operators, quality standards and certification; (b) conduct functional reviews and help strengthen a few essential standards and export control entities like

phytosanitary control (fumigation, authorization of export) and certification bodies that provide training, monitoring, accreditation and other essential services; (c) strengthen expertise within EDBM to promote inclusive and sustainable investments in the priority value chains; and (d) organize south-south peer learning events to leading import and exports markets with the aim to improve quality control and promote new certifications. These activities will improve the enabling environment for agribusiness value chain development and support the development of a market driven and competitive agribusiness sector. These activities will be complemented by future IDA-funded interventions supporting a broader dialogue on agriculture development, including on important issues like land tenure linked to agribusiness. The parallel work on improvements in the distribution of electricity (OFID funded), national roads (AfDB, EU, OFID funded) and water supply will also benefit the agribusiness sector.

2.4.2: Strengthen information, coordination and linkages in the targeted value chains (US$4.0 million)

58. This sub-component will promote the development of competitive value chains by addressing market and coordination failures at the individual value chain level in the Atsimo-Andrefana, Anosy and Diana Regions. The value chain programs will support activities that improve transparency and trust and promote better coordination within the target value chains. The project will finance: (a) TA to improve overall value chain and policy coordination through introduction of more structured, inclusive and evidence based public private dialogue (PPD) at the value chain level; (b) TA to develop a market based vision and strategic action plan for each value chain; (c) a detailed census of producers engaged in the value chains and suitable land for intensification; (d) CB to local TVETs and producer organizations' introduction and use of certification and traceability among members; (e) TA to allow MBIF to realize catalytic and inclusive investment opportunities along target value chains, including nucleus and contract farming opportunities, development of commercially operated seed banks and nurseries as well as PPP opportunities linked to for example the cocoa plantations owned by the GoM; (f) TA to help strengthen contractual farming arrangements; and (g) feasibility studies for rural feeder roads..

59. The project will work closely with major investors, traders and light manufacturers downstream to support value chain participants upstream. This includes potential new IFC IS investments in the cocoa (Diana), cotton (Atsimo-Andrefana) and abattoir (Anosy) sectors. The value chain support programs will be implemented in close collaboration with local partners that provide agricultural extension services like Centre de Technique Horticole de Tamatave (CTHT), Agricultural Research for Development (CIRAD), and Centre National de Recherche Appliquée au Développement Rural (FOFIFA). It will also partner with large producer organizations such as Plateforme du Coton, Plateforme du Pois du Cap, Plateforme du Grains Secs, etc. for interactions upstream in the value chain. It will also provide TA to help address strengthen contractual farming arrangements.

60. **PIC2-2:** The second phase would continue supporting local linkages and contract farming. It would also improve access to key production areas through the rehabilitation of rural feeder roads that would greatly improve access to some of the most productive areas for agribusiness. Semi-landlocked areas that are only accessible by foot or bike for much of the year result in rotting crops and depressed and volatile prices for upstream value chain participants and uncertain inputs and quality for processors and traders. The project would finance public works

to upgrade rural feeder roads in: a) the Atsimo-Andrefana Region—43 km of feeder roads will unlock a large production area of cotton and dried beans, and complement the imminent rehabilitation of RN9 by AfDB; and b) the Diana Region—30 km of the Haut Sambirano road will improve access to the most important production area for cocoa in Madagascar. Furthermore, Phase II would explore PPP options for the secondary irrigation network in Manombo in Atsimo-Andrefana and to possibly extend the Manombo trunk channel recently built through funding from AfDB. The objective would be to save water and irrigate some 2,900 ha for cotton and dried beans producers.

COMPONENT 3: PROJECT IMPLEMENTATION, M&E, SAFEGUARDS, IMPACT EVALUATION (US$3.5 MILLION)

61. This component will finance the PIU to allow it to manage and implement the project, comply with safeguards, and fulfill M&E commitments. The project will retain its head office in Antananarivo with strong decentralized technical units in the targeted regions that oversee implementation, act as focal points, and lead the dialogue with local authorities, private partners and beneficiaries. The current office in Nosy Be will move to Antsiranana to oversee the development of the northern growth corridor. The current office in Tolagnaro will remain and a new office will be setup in Toliara.

62. Output-related M&E is the responsibility of the PIU. This will ensure effective and timely monitoring of progress towards achieving the development objectives as set out in the Results Framework in Annex 1. Data will feed into the implementation support missions. The progress will be followed through: (a) an annual household survey carried out on a restricted sample of households, (b) data from the Caisse Nationale de Prévoyance Sociale (CNaPS), EDBM and DBI.

63. A rigorous impact evaluation will be an integral part of the project. The primary aim of the analytical work is to measure, investigate and explain intended and unintended benefits of the project interventions, and in particular in the informal sector. The impact evaluation will hence allow for a comprehensive stocktaking and review of the project's achievements. The analysis will also help to determine whether pre-identified constraints limiting the project beneficiaries' ability to materialize their commercial and professional potential are effectively lifted by support activities.

64. The impact evaluation will to a large extent be based on quantitative comparison of a treatment group with an adequate control group. In the case of a growth pole approach, there will be different "doses" of treatment, with some benefiting from more activities than others. The project has been designed to provide activities in well-defined areas (the so-called "target poles" or "target corridors"). Populations located within these spatially confined areas are thus the treatment group while populations located outside these areas are potentially control groups. It is crucial to tailor the selection of the treatment and the control group to the activities of interest. This step is elementary to guaranteeing statistical identification of changes that can be causally linked to the project's activities and these activities only. The main challenge will be to identify project features that offer the potential to select a control group suitable to allow for such rigorous analysis. The impact evaluation team will work closely with the PIU, INSTAT and

other project stakeholders, through an initial IE workshop and regular consultations, to develop research designs that will outline in detail the selection of appropriate counterfactuals.

65. The empirical analysis will mainly build on survey data collected for this purpose and for the M&E framework: first, a complete baseline survey (household survey), which will be carried out prior to respondents' exposure to any relevant intervention activities – this survey is underway and carried out by INSTAT; second, an end line survey which will be administered after the project has been well into operation; and third, conditional on sufficient implementation and funding, a "lighter" version of the household survey to capture shorter term impact and fill the M&E framework. The information will be collected from representatives of both the treatment group and the control group. Frequently, the same individuals, households or firms will be re-visited over time to create panel datasets. Sample sizes will be informed by statistical power calculations and determined to adequately reflect the requirements of the respective study. The survey tools will include a broad range of indicators that will cover the socio-economic status of households, information on labor, living conditions, health, education and agriculture activities (if relevant). Finally, the survey instruments will be gender-informed in order to be able to shed light on differential project effects on men and women. The entire survey work will be coordinated by a field coordinator hired as a consultant under the direct supervision of the impact evaluation team.

66. This sub-component will also finance the operational costs associated with designing, implementing and maintaining a fully functional Monitoring Evaluation (M&E) system to accurately track and analyze the implementation progress of the project. In particular, this system will facilitate the timely and thorough reporting of the progress that this project is achieving against its targets formulated in the PDO level and intermediate indicators. The system will supply the project management team with in-depth information on the progress and performance of the project's sub-components and activities. The system will also contribute to an evidence base that can help inform and guide decision-making for feedback and learning purposes. Furthermore, regular and timely reporting will be instrumental in providing inputs for the implementation support missions, the implementation status and results reports, and for the final evaluation of the project performance in the implementation completion and results report.

67. The current PIU has built a strong M&E capacity during PIC1. Most of the indicators in the M&E framework in PIC1 will be used in PIC2. Two new and innovative indicators have been added. First, the number of wage jobs in the target poles will be measured through a household survey. This indicator will help assess the spillovers of the project to the informal sector. As a matter of fact, rehabilitation of roads as well as an increase in tourist arrivals and agricultural production will not only benefit formal firms but will also foster the development of micro and small enterprises. Second, the Local Governance Index captures how public policy decisions are made and implemented in the target municipalities. It was developed in 2005 by Impact Alliance and tested in various countries and settings in Africa. It was first implemented in the Anosy region in 2008. This index has a scale from 0 to 10. In Madagascar, it comprises 34 sub-criteria grouped into 6 dimensions: (a) participation covering the existence and the elaboration process of a clear vision and strategic/operational plans, leadership, the existence of a dialogue platform between local authorities, private sector, citizens, etc.; (b) equity covering the participation of women and equal opportunities for vulnerable populations; (c) transparency and accountability, covering in particular the availability and access to information for citizens

(related to service delivery, procurement and utilization of resources); (d) rule of law covering the existence and application of an institutional legal framework, respect of public procurement guidelines, respect of the procedures for development and adoption of the municipal budget and for budget management, implementation of (internal and external) control mechanisms; (e) effectiveness covering access to basic services (education, health, water, security and land rights), satisfaction of the population vis-à-vis delivery of documents by local authorities, efficiency in managing financial resources, ration of mandates of actual tax collection; and (f) transversally, *i.e.* integration of sector challenges in the elaboration of the strategic/operational plans (health, education, water, waste management, etc.).

Annex 3: Implementation Arrangements

MADAGASCAR: Second Integrated Growth Poles and Corridors Program (SOP-1)

FINANCIAL MANAGEMENT

Introduction

1. A financial management assessment was undertaken in order to evaluate the adequacy of the project arrangements in accordance with OP/BP 10.00 *Investment Project Financing* and the Financial Management Practices Manual as issued by the Financial Management Sector Board. The assessment covered the implementing agency of the ongoing Integrated Growth Poles Project scheduled to close in December 2014. The existing PIU structure will be retained for the implementation of the Second Integrated Growth Poles and Corridor Project.

Financial Management Arrangements for the Project

2. ***Budgeting and planning:*** The PIU will prepare the annual budget which will be approved by the Project Steering Committee. The PIU will be responsible for producing variance analysis reports comparing planned to actual expenditures on monthly and quarterly bases. The periodic variance analysis will enable the timely identification of deviations from the budget. These reports will be part of the interim unaudited financial reports (IFRs) that will be submitted to the Association on a quarterly basis. An external auditor will need to be recruited within six months following effectiveness.

3. ***Accounting software:*** The PIU will use their existing accounting software for transaction processing and preparation of the quarterly interim financial reports and the annual financial statements.

4. ***Internal controls/FM procedures manual:*** The PIU will amend their existing FM procedures manuals in order to meet the requirements of this project. The implementing entities will periodically review the manuals over the project life to ensure their continued adequacy and compliance with the requirements set out therein.

5. ***Internal audit:*** The PIU will recruit an Internal Auditor who will continuously review the governance, risk management and control aspects of the project. The Internal Auditor will prepare quarterly reports for submission to the Project Steering Committee. The internal audit department will perform an objective assurance function and will not be involved in carrying out operational tasks to ensure their independence in executing their work.

6. ***Financial reporting:*** The PIU will prepare quarterly un-audited IFRs for the project in form and content satisfactory to the Association, which will be submitted to the Association within 45 days after the end of the quarter to which they relate. The project prepared and agreed with the Association on the format of the IFRs at the time of the negotiations. The annual financial statements will be prepared using internationally accepted accounting standards. At the end of each fiscal year, the project will prepare annual financial statements which will be subjected to an external audit.

7. ***Staffing:*** The PIU has the financial management staff that possess the relevant qualifications and the appropriate experience with regard to the Bank Financial Management (FM) procedures and requirements. However, the current Finance Manager is seconded to the PIU by an accounting firm that was contracted to carry out the financial management function. The PIU will therefore need to recruit a Finance Manager (as an individual Consultant) who will supervise the financial management team. In addition, the PIU will recruit a total of three Accounts Assistants (one for each regional office) who will be responsible for the financial management at the Antsiranana, Toliara and Tolagnaro regional offices. The PIU will retain the current Chief Accountant and Accounts Assistant to ensure continuity in the new project. The overall financial management risk rating is assessed as *Moderate*.

Disbursement arrangements and flows of funds

8. ***Flows of Funds - Designated Account.*** The PIU will open a Designated Account (DA) denominated in US Dollars to enable payment of eligible project expenditures. The DA will be opened in the Central Bank of Madagascar in compliance with the legal requirements. The PIU will also open Project Accounts denominated in local currency to facilitate payment of eligible expenditure incurred in Ariary. Interest income received on the DA will be deposited into the DA to be used for eligible project expenditures.

9. ***Disbursement arrangements.*** Upon the effectiveness of the financing, transaction-based disbursements will be used. An initial advance up to the ceiling of the DA and representing four months forecasted project expenditures payable through the DA will be made into the designated account and subsequent disbursements will be made on a monthly basis against submission of the Statement of Expenditures (SOEs) or other documents as specified in the Disbursement Letter (DL).

10. In addition to the “advance” method, the option of disbursing the funds through direct payments to a third party will also be available. Another acceptable method of withdrawing proceeds from the IDA credit is the special commitment method whereby IDA may pay amounts to a third party for eligible expenditures under special commitments entered into, in writing, at the request of the Recipient and on terms and conditions agreed between the IDA and the Recipient. The SC is issued in connection with the issuance of an irrevocable Letter of Credit (LC).

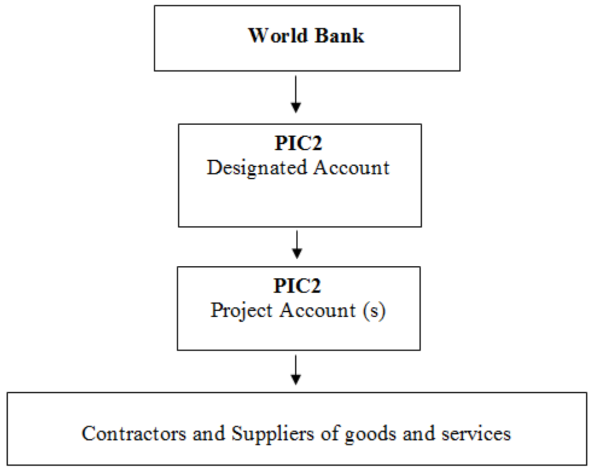
11. The credit will disburse 100 percent of eligible expenditures (inclusive of taxes) in line with the Country Financing Parameters (CFP) for Madagascar. The proceeds of the credit have been allocated as per Table 4.

Table 4: Categories to be financed

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, works, non-consulting services, and consultants' services including Operating Costs and Training for Component 1 of the Project, except Matching Grants under subcomponent 1.2(d) of the Project	5,100,000	100%
(2) Goods, works, non-consulting services, and consultants' services including Operating Costs and Training for Component 2 and 3 of the Project, except goods, works, non-consulting services, and consultants' services under subcomponent 2.1(a) (y) of the Project	24,700,000	100%
(3) Matching Grants.	2,400,000	100% of amounts disbursed by the Recipient under the Matching Grant
(4) OCAI Grants	300,000	100% of amounts disbursed
(5) Refund of Preparation Advance	1,300,000	Amount payable pursuant to Section 2.07 of the General Conditions
TOTAL AMOUNT	33,800,000	

12. ***Disbursement of Funds to Service Providers, Contractors and Suppliers.*** The PIU will make payments to service providers', contractors and suppliers of goods and services for specified eligible activities under the Credit. Such payments will be made on the basis of the terms and conditions of each contract (see Figure 4).

Figure 4: Funds Flow Diagram



13. ***External Audit:*** The project accounts will be audited annually and the audit report will be submitted to the World Bank no later than 6 months after the end of each financial year. At the time of this appraisal, there is no overdue audit report for the sector. The Project will comply with the Bank disclosure policy on audit reports (including making publicly available, promptly after receipt of all final financial audit reports (including qualified audit reports) and place the information provided on the official website within one month of the report being accepted as final by the Association.

14. ***Supervision plan***: Based on the current overall residual FM risk, the project will be supervised at least twice a year, in addition to routine desk-based reviews, to ensure that Project's FM arrangements operate as intended and that funds are used efficiently for the intended purposes.

15. ***FM Risk assessment and mitigation.*** The Association's principal concern is to ensure that project funds are used economically and efficiently for the intended purpose. An assessment of the risks that the project funds will not be appropriately used is an important part of the financial management assessment work. The risk features comprise two elements: (i) the risk associated to the project as a whole (inherent risk), and (ii) the risk linked to a weak control environment with regard to the project implementation (control risk). The content of these risks is described in Table 5:

Table 5: Risks and mitigation measures

Risk	Risk Rating	Risk Mitigating Measures Incorporated into Project Design	Conditions for Effectiveness (Y/N)	Resi-dual Risk
Inherent risk	**S**			**S**
Country level: The Public Expenditure and Financial Accountability (PEFA) assessment identified critical Public Financial Management (PFM) weaknesses at central and decentralized levels	S	The implementation of PFM reform stalled owing to the limited donor engagement with the de facto government. The revamping of PFM reform process will be a critical part of the re-engagement with the new government. The continued use of a standalone PIU will mitigate these weaknesses.	N	S
Entity level: The implementing entities may not be able to meet the financial management requirements due to lack of financial management capacity	M	The PIU will retain the existing financial management personnel (Chief Accountant and Accounts Assistant) that possess adequate experience and competence. A Finance Manager and Regional Accounts Assistants will also be recruited.	N	M
Project level: The resources of the project may not be used for the intended purposes.	M	The PIU will comply with the internal control processes as set out in the respective FM procedures manuals. The internal audit unit will also continuously review the adequacy of internal controls and make improvement recommendations.	N	M
Control Risk	**M**			**M**
Budgeting: Weak budgetary execution and control leading to budgetary overruns or inappropriate use of project funds.	M	The FM procedures manuals will spell out the budgeting and budgetary control arrangements to ensure appropriate budgetary oversight.	N	M
Accounting: The accounting function might not be able to execute its duties and to generate financial information in a timely manner.	M	The PIU will recruit/retain suitably qualified and experienced FM personnel to ensure appropriate performance of the accounting and financial management functions. The financial reporting processes will also be facilitated by use of the existing information systems.	N	M
Internal Control: Specific aspects of the project activities may not be appropriately addressed in the FM procedures manuals;	M	The FM Procedures Manual will be reviewed to ensure continuing adequacy over the course of the project life. The manual will contain all the key internal control processes pertaining to the various project activities.	N	M
Funds Flow: Risk of misused and inefficient use of funds;	M	The rigorous review of all transactions prior to final payment will be performed by the Project Coordinator and the Finance Manager. Internal audit reviews will also mitigate the risk of the use of funds for unintended purposes.	N	M

Risk	Risk Rating	Risk Mitigating Measures Incorporated into Project Design	Conditions for Effectiveness (Y/N)	Resi-dual Risk
Financial Reporting: The project may not be able to produce the financial reports required in a timely manner as required for project monitoring and management	M	The PIU will retain the existing financial management personnel (Chief Accountant and Accounts Assistant) that possess adequate experience and competence. A Finance Manager and Regional Accounts Assistants will also be recruited. The PIU will use the existing computerized accounting system that will enable the efficient and timely generation of financial information.	N	M
Auditing: Delays in submission of audit reports or delays in implementing the recommendations of the management letter.	M	An independent external audit firm will be hired by the project with regard to the audit submission timelines set out in the financing agreement. The Association will monitor audit submission compliance and ensure implementation of management letter recommendations.	N	L
Governance and Accountability: Possibility of corrupt practices including bribes, abuse of administrative & political positions, misprocurement and misuse of funds etc., are a critical issue.	S	Robust FM arrangements (including a comprehensive annual audit of project accounts, Association FM supervision including review of transactions and asset verification) designed to mitigate the fiduciary risks in addition to the PIU's overall internal control systems. The project will also publicly disclose the audit report and all critical financial and contract information.		S
OVERALL FM RISK	**M**			**M**

16. The overall FM risk rating, taking into account the mitigation measures, is deemed Moderate.

Financial Management Action Plan

17. The Financial Management Action Plan described in Table 6 has been developed to mitigate the overall financial management risks.

Table 6: Financial Management Action Plan

Issue	Remedial action recommended	Responsible entity	Completion date	Effectiveness Conditions
Internal auditor	Recruitment of an Internal Auditor	PIU	3 months following effectiveness	No
FM Staffing	Recruitment of Accounts Assistants for the 3 field offices	PIU	6 months following effectiveness	No
Procedures Manuals	Amendment of the FM Procedures Manual	PIU	Prior to effectiveness	No

LIST OF CONDITIONALITIES AND COVENANTS

18. Financial covenants/ Dated covenants

- Recruitment of an Internal Auditor (3 months following effectiveness)
- Recruitment of Accounts Assistants for the 3 field offices (6 months after effectiveness)

19. Other FM standard covenants

- IFRs will be prepared on a quarterly basis and, submitted to the Association with 45 days after the end of each quarter.
- Annual detailed work program and budget including disbursement forecasts will be prepared each year by end of December.
- The overall FM system will be maintained operational during the project's entire life in accordance with sound accounting practices.

PROCUREMENT

General

20. Madagascar is in the process of major procurement reforms. The last CPAR was conducted jointly by the Association and the Government of Madagascar (GoM) in December 2002. The document was revised in May and June 2003. In July 2004, the GOM approved a procurement law (No 2004-009) governing the procurement activities in Madagascar (*Loi portant Code des Marchés Publics*). The Senate and Parliament passed the new Procurement Code which became effective in July 2004. The main pillars of the code are transparency, efficiency and economy, accountability, equal opportunity for all bidders, prevention of fraud and corruption, and promotion of local capacity. The Procurement Code was complemented by new regulations and procedure manuals as well as standard bidding and other procurement documents. The Procurement Code defines methods of procurement and review procedures. In 2006, and in line with the code the Public Procurement Oversight Authority (Autorité de Régulation des Marchés Publics) was created. ARMP oversees the National Tender Board (Commission Nationale des Marchés) for procurement reviews and the Regulatory and Appeals Committee (Commission de Régulation et de Recours) for handling norms and complaints. Finally, the code provides for the creation of Procurement Units (Unités de Gestion de la Passation de Marchés) under the leadership of a Head of Public Procurement (Personne Responsable des Marchés Publics, PRMP), as well as a Tender Commission (Commission d'Appel d'Offres) in each ministry and decentralized departments of national public institutions. In 2005 and 2006, the GOM has adopted a series of eight decrees and ten "*arrêtés*" to better organize and implement the procurement process. There are no provisions in the procurement law that are contrary to the Bank's Guidelines.

21. The Procurement Code is largely consistent with good public and international practices and includes provisions for: (i) far-reaching and effective advertising of upcoming procurement opportunities (issuance of general procurement notices for each procuring entity and their inclusion on the Public Procurement Oversight Authority website); (ii) open public bidding; (iii)

pre-disclosure of all relevant information, including clear and transparent bid evaluation and contract award procedures; (iv) clear accountabilities for decision making; and (v) an enforceable right to review for bidders when public entities breach the rules. The Country Procurement Assessment Report (CPAR) was submitted to the government and adopted in June 2003. The CPAR action plan was agreed upon and approved by the government at the December 2003 CPAR mission and workshop.

Use of guidelines

22. *Procurement* will be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated January 2011, revised July 1st, 2014 and "Guidelines Selection and Employment of Consultants by the World Bank Borrowers" dated January 2011, revised July 1st, 2014, and in accordance with provisions stipulated in the Legal Agreement.

23. The "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants," dated October 15, 2006, and revised in January 2011, will apply to this project.

Fraud, Coercion, and corruption

24. All procuring entities, as well as bidders, suppliers, and contractors shall observe the highest standard of ethics during the procurement and execution of contracts financed under the project in accordance with paragraphs 1.15 & 1.16 of the Procurement Guidelines and paragraphs 1.25 & 1.26 of the Consultants Guidelines.

Advertising

25. General Procurement Notices, Specific Procurement Notices, Requests for Expression of Interest, Invitation to Bid, results of the evaluation, and awards of contracts should be published in accordance with advertising provisions in the following guidelines provisions. The borrower will maintain a list of responses received from potential bidders interested in the contracts.

26. A draft General Procurement Notice (GPN) has been prepared and will be posted on Development Business online, in international magazines when deemed necessary, and in national newspapers at the latest after board approval. It shall include contracts under International Competitive Bidding (ICB) and consulting contracts (i.e. estimated to cost $200,000 or more). Specific procurement notices are required for all goods and works to be procured under ICB and Expression of Interest (EOI) for all consulting services costing more than US$ 200,000 equivalent or more. All NCB procurement packages for goods and works will be advertised in the national newspapers as required by the procurement code of Madagascar.

27. For ICB and requests for proposals that involve international consultants, the contract awards shall be published in *UN Development Business online* within two weeks of receiving IDA's "no objection" to the contract award recommendation.

Procurement Methods

28. **Procurement of Works**: Works procured under this program will include upgrading urban roads, improving access to water and sanitation, and rehabilitation of offices, upgrading of tourism sites and craft markets, in accordance with an approved annual work program. Contracts estimated to cost more than the equivalent of US$5,000,000 will be procured using ICB. Contracts estimated to cost more than US$100,000 but less than US$5,000,000 will be procured using NCB in accordance with the national procurement law. Small works estimated to cost less than US$100,000 equivalent per contract may be procured through price comparison received from at least three contractors in response to a written invitation. When it is the only way to get the works executed, and with prior approval of the Association, small works may be procured through direct contracting in accordance with clause 3.7 of the Guidelines.

29. **Procurement of Goods:** Goods procured under this project would include: computer hardware and software, and vehicle as well as office equipment and furniture. Contracts for goods estimated to cost US$500,000 equivalent and above will be procured through ICB and those below US$500,000 but above US$50,000 through NCB. For contracts below US$50,000, prudent shopping may be used. The procurement will be done using the Bank's SBD for all ICB and National SBD agreed with or satisfactory to the Association. Goods of similar nature, to the extent possible, should be grouped in much larger packages to enable wider competition. All Procurement for goods and services will follow IDA Procurement Guidelines. Procurement for vehicles and other transportation means may be done through UNOPS.

30. **Procurement of non-consulting services:** Procurement of non-consulting services will be procured using acceptable SBD consistent with IDA guidelines. And will include various services related to the deployment of information technology systems

31. **Selection of Consultants:** Consultancy services required for the project would cover consultancies to: technical assistance, technical and financial audits, analytic studies, hiring of NGOs, and training. All consulting services contracts costing more than US$200,000 equivalent for firms will be awarded through Quality and Cost Based Selection (QCBS) method. Contract for specialized assignments to cost less than US$100,000 equivalent may be contracted through Consultant's Qualifications (CQ) method. Contracts for standards accounting audits and for missions of routine nature may be awarded under Least Cost Selection (LCS). Single Source Selection (SSS) may be employed with prior approval of the Association and will be in accordance with paragraphs 3.9 to 3.12 of Consultant Guidelines. All services of individual consultants will be procured under individual contracts in accordance with the provisions of paragraphs 5.1 to 5.4 of Consultant Guidelines. Short lists of consultants for services estimated to cost less than $100,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

32. **Operating Costs:** The operating costs for this project will include expenses related to management of the project by the PIU. These expenses shall consist of some staff salary costs and employment benefits of support staff, office supplies, travel expenses and subsistence expenditures, operation, repair and maintenance costs for vehicles and equipment, office rental and maintenance, materials, supplies and utilities and media information campaigns and

communication expenses. Procurement will follow PIU's administrative procedures which were reviewed and found acceptable to the Association.

33. The procurement procedures and SBDs to be used for each procurement method, as well as model contracts for works and goods procured, are presented in the Project Implementation Manual. Table 7 presents the thresholds for procurement methods and prior review.

Table 7: **Thresholds for Procurement Methods and Prior Review**

Expenditure Category	Contract Value Threshold (US$)	Procurement Method	Contracts Subject to Prior Review (US$)
1. Works	>5,000,000 100,000-5,000,000 <100,000 All amount	ICB NCB Shopping Direct contracting	All First contract None All
1. Goods	>500,000 50,000-500,000 <50,000	ICB NCB Shopping	All First contracts None
2. Services Firms	 >200,000 <100,000	 QCBS QCBS , CQ and LCS	 All Above US$200,000 Two First contract
3. Individual Cons.	>50,000 <50,000	ICS	All None
4.Firms and Individuals	All amount	SSS	All

Assessment of the agency's capacity to implement procurement

34. An assessment was conducted to confirm that the Secretariat Exécutif du Projet Pôle de croissance (SEP) has the capacity to carry out procurement activities.

35. The overall project risk for procurement is Moderate

Table 8: Risk Assessment and Mitigation

Designation	Concerns	Risk mitigation	Due date
Planning and budgeting	Lack of budget forecast and costing of activities subject to be procured	Capacity building on budgeting and cost estimation for consultancy services	At effectiveness
Execution and monitoring	Lack of internal Audit	Development of cost and contract management control	At effectiveness
Project management	No manual in place for complaint management	Development of complaint management within Project implementation manual	At effectiveness

Procurement Plan

36. The Borrower, at appraisal, developed a procurement plan for project implementation which provides the basis for the procurement methods. This plan has been agreed between the Borrower and the Project Team on October 23, 2014 and is available at SEP. It will also be available in the project's database and in the Bank's external website. The Procurement Plan will be updated in agreement with the Project Team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

Frequency of Procurement Supervision

37. In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the Implementing Agency has recommended Annual supervision missions to visit the field to carry out post review of procurement actions.

Details of the Procurement Arrangements Involving International Competition

1. Goods, Works, and Non Consulting Services

(a) List of contract packages to be procured following ICB and direct contracting:

1	2	3	4	5	6	7	8	9
Ref. No.	**Contract (Description)**	**Estimated Cost X $1,000**	**Procurement Method**	**P-Q**	**Domestic Preference (yes/no)**	**Review by Association (Prior / Post)**	**Expected Bid-Opening Date**	**Comments**
2	**Sector based growth in the 3 poles and corridors**							
2.2	Removing infrastructure impediments							
	2.2.1 Upgrading urban roads							
	Rehabilitate urban bypass road that links RN6 with the Antsiranana Port	2,500	NCB	No	No	Post	30 Aug15	12 months
	Rehabilitate urban link road, in Toliara, urban access to Toliara Port and access to embarkation area for the Anakao ferry	4,000	ICB	No	No	Prior	30 Aug15	12 months
	2.2.3 Improving access to water and sanitation							
	Upgrade water supply in Toliara	3,500	NCB	No	No	Post	30 Aug15	10 months
	Partial upgrading of water supply and distribution in Diego	8,500	ICB	No	No	Prior	15 Dec 15	12 months

2.3	Promoting sustainable tourism development							
	2.3.2 Promoting regional tourism development							
	Upgrade of 3 select tourism attractions (National Park other) in Diana	325	NCB	No	No	Post	10 Feb 16	4 months
	Upgrade of two select tourism attractions (National Park and other) in Antsiranana	325	NCB	No	No	Post	10 Feb 16	4 months
	Public works to rehabilitate artisanal markets	350	NCB	No	No	post	30-Nov-16	4 months

(b) ICB contracts estimated to cost above $5,000,000 for works and $500,000 for goods per contract and Direct contracting will be subject to prior review by the Association.

2. Consulting Services

(a) *List of Consulting Assignments with short-list of international firms.*

2.1 Firms

1	2	3	4	5	6	7	8	9
Ref. No.	**Contract (Description)**	**Estimated Cost X $1,000**	**Selection Method**	**Prior and Post Review**	**Submission and Opening Date**	**Financial Proposal Opening Date)**	**Contract Signature Date**	**Comments**
1.	**Strengthening the enabling environment for entrepreneurship and investment**							
1.1	Improving the investment climate							
	Consultancy to design and implement ICT systems	300	QCBS	Prior	24 Apr 15	1 Sept 15	1 Oct 15	6 Months
	Consultancy to: (i) identify and implement select reforms PPD Platform and IC reforms (ii) identify issues and recommend improvements to issuing of permits/licenses and (iii) identify and implement select PPD Platform and IC reforms agenda	800	ICS	Prior	3 Feb 15	1 Mar 15	20 Mar 15	3 months

1.2	Promoting private investment							
	1.2.2 Building capacity to design and implement PPPs							
	Technical and legal (pre)feasibility studies for select pilot PPPs	600	QCBS	Prior	24 Apr 15	1 Sept 15	1 Oct 15	3 Months
	Support to implementation of select PPPs	300	QCBS	Prior	24 Apr 16	1 Sept 16	1 Oct 16	12 Months
	1.2.3Madagascar Business and Infrastructure Development Facility (MBIF)							
	MBIF fund Manager	1,200	QCBS	Prior	16 Dec 14	25 Apr15	25 May15	Continuous
2.	**Sector based growth in the 3 poles and corridors**							
2.3	Promoting sustainable tourism development							
	2.3.1 Building capacity for a better Tourism Governance (institutional framework)							
	Support to Ministry of Tourism and Public Institutions							
	Review and update the tourism master plan and /implement clear plan	200	QCBS	Prior	22 Jan15	1 Jun15	1 Jul 15	3 Months
	Design a sustainable business model for ONTM	100	ICS	prior	15 Jan 16	1 Jun15	1 Jul 15	3 months
	Improving competitiveness in the air transport sector							
	TA to outline the National Air Transport Plan and international air access strategy and strategic positioning of ADEMA and Air Madagascar	600	QCBS	Prior	15 Jun15	30Jun 15	15 Jul 15	4 Months
	Design of National Airport Master Plan	500	QCBS	Prior	3 Apr16	10 Aug16	10 Sept16	3 Months
	TA to upgrade security standards of the Civil Aviation Authority and drafting of BASAs (ACM)	400	QCBS	Prior	17 Oct 15	25 Feb16	25 Mar 16	3 Months
	2.3.2 Promoting regional tourism development							
	Improve access to key tourist attractions							
	Design and prepare bidding documents for rural access roads (Toliara-Salary, Tulear-Anakao, Salines Diana)	400	QCBS	Prior	26 Apr14	30 Feb 15	30 Mar 15	3 Months

2.2. Individual Consultants Contract

1	2	3	4	5	6	7	8	9
Ref. No.	**Contract (Description)**	**Estimated Cost X $1,000**	**Selection Method**	**Prior and Post Review**	**Submission and Opening Date (T)**	**Financial Proposal Opening Date)**	**Contract Signature Date**	**Comments**
1.	**Component Strengthening the enabling environment for entrepreneurship and investment**							
1.2	Promoting private investment							
	1.2.1Building capacity to attract and manage private investment							
	Design promotion strategy and coaching of staff	360	ICS	Prior	31 Mar15	15 Apr15	15 May15	2-3 months
	1.2.2 Building capacity to design and implement PPPs							
	Capacity building GoM on PPPs design international good practices	180	ICS	Prior	31 Mar15	15 Apr15	15 May15	8 months
	Consultancy for Ehoala Port concession agreement and international promotion.	340	ICS	Prior	31 Mar 15	15 Apr15	15 May15	6-9 months
2.	**Sector based growth in the 3 poles and corridors**							
2.3	Promoting sustainable tourism development							
	2.3.1Building capacity for a better Tourism Governance (institutional framework)							
	Review of sector institutional arrangement	100	ICS	Prior	26 Mar15	10Apr15	10 May15	2 months
	National Tourism marketing strategy and market research	180	ICS	Prior	26 Jun15	10Juil15	10 Aug15	8 months
	2.3.2 Promoting regional tourism development							
	Improving management of tourism attractions in Atsimo Andrefana and Diana							
	Master plan design select tourism attractions (MNP sites and others)	300	ICS	Prior	15 Jun15	30 jun15	30 Jui15	6 months
	Develop commercialization strategy for MNP	300	ICS	Prior	1 Aug15	15 Aug15	15 Sept15	6 months
	Promoting and marketing regional destinations							
	Branding and marketing strategies for Diana and Atsimo Andrefana	200	ICS	Prior	25 Jan16	10 Apr16	10 Mar16	3 months
	International promotion coaching sessions	100	ICS	Prior	26 Apr16	10 may16	10 jun16	4 months

2.4	Promoting sustainable agribusiness development							
	2.4.1Strengthening the enabling environment for agribusiness development							
	Review and update the legal and institutional framework							
	TA to update legal and institutional regulatory framework	60	ICS	Prior	1 May15	15 Apr15	15 Jun15	6 months
	2.4.2 Promoting growth and competitiveness of agribusiness value chains							
	Promoting catalytic and inclusive investment opportunities in select value chains							
	TA to identify and promote catalytic and inclusive investment opportunities in agribusiness	90	ICS	Prior/Post	18 Dec15	10 Jan 16	1 Feb 16	6 months (discount.)
3	**Project implementation, M&E, safeguards and impact evaluation**							
	3.2 Impact evaluation, external audit and mitigation measures							
	Impact evaluation activities	40	ICS	Prior	18 Juil16	1 Aug 16	1 Sept 16	5 months

(b) ***Prior review***: (a) each contract estimated to cost more than US$200,000 per contract for Firms and US$50,000 per contract for individuals consultants; (b) all single source selection; (c) all training; and (d) all amendments of contracts raising the initial contract value by more than 15 percent of original amount or above the prior review thresholds will be subject to IDA prior review mandatory in paragraphs 2 and 3 of Annex 1 of the Bank's Consultants selection Guidelines.

(c) ***Short lists composed entirely of national consultants***: Short lists of consultants for services estimated to cost less than US$100,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

(d) ***Post review*:** For each contracts for services not submitted to the prior review, the procurement documents will be submitted to IDA post review in accordance with the provisions of paragraph 4 of Annex 1 of the Bank's Consultant selection Guidelines. The post review will be based on a ratio of at least 1 to 5 contracts.

Madagascar NCB Exceptions (Based on the Procurement Guidelines as revised Jan. 2011)

General

38. The procedures to be followed for National Competitive Bidding (NCB) shall be those set forth in "Law no. 2004-009 of July 2004 portant Code des Marchés Publics"—the Public Procurement Law (PPL)—with the modifications described in the following paragraphs.

Eligibility

39. The eligibility of bidders shall be as defined under Section I of the Procurement Guidelines; accordingly, no bidder or potential bidder shall be declared ineligible for contracts financed by the Association for reasons other than those provided in Section I of the

Procurement Guidelines. The requirement of producing a registration number (*Numéro d'Immatriculation*) for any bidder to participate in the bidding process shall not be interpreted as a prior requirement to any sort of local registration, license, or authorization.

40. Government-owned enterprises or institutions of the Republic of Madagascar shall be eligible to participate in the bidding process, only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not dependent agencies of the Borrower or Sub-Borrower.

Bidding Documents

41. Standard bidding documents acceptable to the Association shall be used so as to ensure economy, efficiency, transparency, and consistency with the provisions of Section I of the Procurement Guidelines.

Participation by Joint Ventures

42. Participation shall be allowed from joint ventures on condition that such joint venture partners will be jointly and severally liable for their obligations under the Contract. Therefore, the "*Groupement Conjoint*," as set forth in the PPL, shall not be allowed under NCB.

Preferences

43. No domestic/regional preference, or any other kind of preferential treatment, shall be given for domestic/regional bidders, and/or for domestically/regionally manufactured goods, and/or for domestically/regionally originated related services.

Applicable Procurement Method

44. Subject to these provisions, procurement shall be carried out in accordance with the "Open Competitive Bidding" method (Appel d'offres ouvert) set forth in the PPL.

Qualification

45. Qualification criteria shall entirely concern the bidder's capability and resources to perform the contract, taking into account objective and measurable factors. The qualification criteria shall be clearly specified in the bidding documents, and all criteria so specified, and only such criteria so specified shall be used to determine whether a bidder is qualified. Qualification criteria shall be assessed on a "pass or fail" basis, and merit points shall not be used. Bidders' qualifications shall be assessed by post-qualification.

Fees for Bidding Documents

46. If a fee is charged for the bidding documents, it shall be reasonable and reflect only the cost of their typing, printing or publishing, and delivery to prospective bidders, and it shall not be so high as to discourage bidders' participation in the bidding process. Bids may be submitted by electronic means only provided that the Association is satisfied with the adequacy of the system, including, inter alia, that the system is secure, maintains the integrity, confidentiality, and

authenticity of the bids submitted, and uses an electronic signature system or equivalent to keep bidders bound to their bids.

Bid Validity and Extension of Bid Validity

47. The bid validity period required by the bidding documents shall be sufficient to complete the evaluation of bids and obtain any approval that may be required. If justified by exceptional circumstances, an extension of the bid validity may be requested in writing from all bidders before the original bid validity expiration date, and it shall cover only the minimum period required to complete the evaluation and award of the contract. The extension of the bid validity requires the Association's no objection for those contracts subject to prior review, if it is longer than four (4) weeks, and for all subsequent requests for extension, irrespective of the period.

Bid Evaluation

48. (a) Evaluation of bids shall be made in strict adherence to the evaluation criteria declared in the bidding documents. Evaluation criteria other than price shall be quantified in monetary terms, and the manner in which they will be applied for the purpose of determining the lowest evaluated bid shall be established in the bidding documents. A weighting/scoring system shall not be used. (b) A contract shall be awarded to the qualified bidder offering the lowest-evaluated and substantially responsive bid. No negotiations shall be permitted. (c) Bidders shall not be eliminated on the basis of minor, non-substantial deviations. (d) In case of requests for clarifications, bidders shall not be asked or permitted to alter or complete their bids.

Rejection of All Bids and Re-bidding

49. All bids shall not be rejected, the procurement process shall not be cancelled, and new bids shall not be solicited without the Association's prior concurrence.

Securities

50. Securities shall be in the format included in the bidding documents. No advance payment shall be made without a suitable advance payment security.

Publication of Contract Award

51. Information on contract award shall be published at least in a national newspaper of wide circulation within two (2) weeks of receiving the Association's no objection to the award recommendation for contracts subject to prior review, and within two (2) weeks from the award decision for contracts subject to post review. Publication shall include the following information: (a) the name of each bidder which submitted a bid; (b) bid prices as read out at bid opening; (c) evaluated prices of each bid that was evaluated; (d) the names of bidders whose bids were rejected and the reasons for their rejection; and (e) the name of the winning bidder, the final total contract price, and the duration and summary scope of the contract.

Contract Modifications

52. In the case of contracts subject to prior review, the Association's no objection shall be obtained before agreeing to: (a) a material extension of the stipulated time for performance of a contract; (b) any substantial modification of the scope of services or other significant changes to the terms and conditions of the contract; (c) any variation order or amendment (except in cases of extreme urgency) which, singly or combined with all variation orders or amendments previously issued, increases the original contract amount by more than 15 percent; or (d) the proposed termination of the contract. A copy of all contract amendments shall be furnished to the Association for its records.

Right to Inspect/Audit

53. In accordance with the Procurement Guidelines, each bidding document and contract financed from the proceeds of the Financing shall provide that bidders, suppliers, and contractors, and their subcontractors, agents, personnel, consultants, service providers or suppliers, shall permit the Association, at its request, to inspect their accounts, records and other documents relating to the submission of bids and contract performance, and to have them audited by auditors appointed by the Association. Acts intended to materially impede the exercise of the Association's inspection and audit rights constitute an obstructive practice as defined in the Procurement Guidelines.

Fraud and Corruption

54. Each bidding document and contract financed from the proceeds of the Financing, and as deemed acceptable by the Association, shall include provisions stating the Bank's policy to sanction firms or individuals found to have engaged in fraud and corruption as defined in the Procurement Guidelines.

Debarment under National System

55. The Association may recognize, if requested by the Borrower, exclusion from participation as a result of debarment under the national system, provided that the debarment is for offenses involving fraud, corruption, or similar misconduct, and further provided that the Association confirms that the particular debarment process afforded due process and the debarment decision is final.

ENVIRONMENTAL AND SOCIAL (INCLUDING SAFEGUARDS)

56. The proposed Second Integrated Growth Poles and Corridors Project will potentially induce adverse environmental and social impacts; land acquisition and involuntary resettlement; health and safety risks; use of potentially harmful pesticides and other biocide products; harm to potential chance finds of physical cultural resources. These impacts are, however, expected to be site specific and not have large scale impacts. Potential investments that might induce the above adverse impacts include: rehabilitation of roads - urban and rural, including feeder roads – and, possibly, bridges, and also water supply, and promotion of tourism and agribusiness.

57. The Project will intervene in the linking of small-holders with medium to larger investors throughout grower schemes. The proposed model is that investors will work with the small holders to improve the quality of the agricultural products, will at the time of harvesting collect and/or buy the products, possibly process the products, store them and sell them to large consumers, as for example some of the large farmer companies in Diana Region. The investors themselves, as well as the out growers, should not need to obtain large tracks of land, which could lead to social and environmental problems and the introduction of Genetically Modified Organisms (GMOs) will not be allowed in this phase of the project. Other negative lists have been provided in the ESMF.

58. Selection criteria for investors covering the above mentioned issues will be established and include environmental, social and gender aspects, and mitigate health and safety impacts. The Project will help build capacity to handle these issues. The planned activities will have low environmental and social impacts and they will be easy to mitigate since no sensitive natural habitats or forest areas are concerned. The tourism activities around protected areas will be implemented in compliance with the protected areas master plan approved under the environmental program and in a participatory manner with local populations following biologic and socio-economic studies. PIC2-1 could directly or indirectly have an impact at work sites, including possible camps and quarries for the rehabilitation of urban roads; and agricultural activities under the agribusiness component. The expected impact on the environment is modest with the most significant relating to land use. Land issues and temporary resettlement will be the main issues in the Toliara growth pole and corridor area for the urban road rehabilitation. However, the potential road sections are occupied within the existing right-of-ways so the local population activities could be affected during the civil works. Moreover, civil works and tourism activities may expose significant risks of HIV/AIDS, and damage to social environments due to the migration resulting from poorly-controlled land development. In the Diana Region, there could also be some indirect impact associated with tourism activities on small sensitive islands.

59. The proposed project is classified as a Category B project according to OP/BP 4.01. Since the sub-projects to be financed are not yet well defined before appraisal, the borrower has prepared, consulted upon and disclosed an Environmental and Social Management Framework (ESMF), a Pest Management Plan (PMP), a Resettlement Policy Framework (RPF). Public consultations on the ToR of environmental and social safeguard studies were conducted in the project areas in the second half of May of 2014. The public and local communities' preoccupations have been incorporated in the final version of the ToRs of the safeguards instruments: ESMF, PMP and RPF. Madagascar is considered a Fragile and Conflict State after five years of political crisis. The PMP was cleared by the Association and disclosed in the country and in the Infoshop on September 16, 2014, and the ESMF and RPF were cleared and disclosed in the country and in Infoshop on November 3-5, 2014.

60. The borrower has been actively responsive in addressing safeguards issues. At the national level, Madagascar has a legislative and regulatory framework which is conducive to good environmental management. In addition, Madagascar has signed a number of international treaties and conventions to ensure sound environmental management.

61. At project level, PIC1 laid a sound institutional foundation for preparing, managing and monitoring potential adverse environmental and social impacts of Bank funded projects. The PIU has the ultimate responsibility for the project's compliance with World Bank safeguards guidelines. This PIU has long experience of implementing Bank funded investments. In PIC1, the PIU prepared and successfully implemented the required safeguards instruments (ESMF, ESIAs and RAPs) in a timely manner. A safeguards coordinator, with the assistance of an environmental and a social specialist, has ensured safeguards compliance. This arrangement will continue under PIC2. Nevertheless, to ensure compliance with Bank safeguards policies, the project will make provisions for enhancing the technical capacity of the Borrower on Bank social and environmental safeguards policies. The Malagasy Environmental law mentions that Environmental assessment for both private and public development is regulated under Décret N°2004-167 (MECIE). This is fairly effective but institutional capacity needs to be developed to ensure more widespread application and improved monitoring. The national environmental law will be reinforced by the World Bank safeguard policies for the proposed project.

62. The PIU has engaged the services of a consultant firm to support the preparing of three separate safeguards instruments. These instruments assess the potential impacts of all activities to be supported by the project with their expected adverse environmental and social impacts and mitigation measures, including the principles, and procedures to be followed for the safeguards policies triggered: OP 4.01 (Environmental Assessment); OP 4.04 (Natural Habitat); OP 4.11 (Physical Cultural); OP 4.12 (Involuntary Resettlement) and OP 4.09 (Pest Management).

63. Based on the screening outcome of the Environmental and Social Screening Form (ESSF) and checklist in ESMF it will be decided if the sub-project will need to prepare an Environmental and Social Impact Assessment (ESIA), a freestanding Environmental and Social Management Plan (ESMP), and/or a Resettlement Action Plan (RAP). ESIAs and RAPs will be prepared in parallel of technical studies of identified subprojects during the implementation phase. Each ESIA will include an environmental and social management plan to deal with the direct social and environmental impacts. The screening of the sub-projects will be done by safeguard specialists, who are part of the Project Task Team. In case safeguard instruments need to be prepared by the PIU, the safeguard specialist will prepare the ToR for these safeguard instruments, be responsible for the procurement of consultants to prepare them, supervise the consultants and M&E for the ESMP, PMP and RAP in collaboration with the regional and local authorities. Positive gender impact will be sought and the safeguard specialist will ensure that contracts include environmental and social clauses, which are attached as an annex to the ESMF, in order to ensure adequate environmental and social management practices during construction and operation. The ESMF proposes of relevant environmental and social impacts/risks assessments for the various subprojects could be financed by the project with mitigation measures.

64. The estimated total budget for implementation of the environmental mitigation measures and the compensation measures for resettlement of affected populations is US$0.86 million with Government contribution to implement resettlement plans at US$0.5 million. As sub-projects/activities to be financed under the catalytic funds have yet to be identified, the ESMF sets forth the principles and guidelines to be followed by the borrowers to comply with the requirements of the triggered policy. It includes the criteria to select the small industrial projects, a mechanism to review and conduct an environmental screening to avoid and mitigate the environmental and social impacts risks of potential subprojects eligible for financing. The steps and due diligence to identify eligible activities includes the following: (i) activities classified as Category B, according to World Bank OP 4.01, where the proposed subproject/activity presented should receive an environmental license delivered by the Malagasy Environmental Authority (National Office of Environment) and implemented in a manner satisfactory to the Environmental and Social Management Plan (ESMP) that would be prepared for each subproject, and monitored by the Malagasy Environmental Authority; and (ii) activities classified as Category C according to World Bank OP 4.01(i.e. negligible or no environmental and social impacts).

65. Tombs are common in the Toliara region and so are sacred places in the North. However, to date, no project activity will trigger OP 4.11 (Physical Cultural Resources). Concerning infrastructure subprojects (mainly roads), no archaeological vestiges will be impacted because the project will work under the existing right-of-ways. For more assurance, the ESMF has made provisions for cultural resources management if it happens that this policy is triggered during the implementation phase and includes “chance finds” procedures for inclusion in the contractors’ contract.

66. Pest Management (OP 4.09) is triggered mainly because of the likelihood of pesticides use in the project targeted areas by farmers and the potential magnitude of the agribusiness investments where these activities would encourage farmers groups to use more inorganic fertilizers and pesticides. To appropriately manage the health and environmental impacts of increased use of processed pesticides, the Borrower has prepared a standalone Pest and Pesticide Management Plan (PPMP). It includes a number of implementable guidelines/actions aiming at reducing/mitigating farmers groups/communities' (especially children/toddlers, elderly, women and other vulnerable groups) exposure to pesticides used in agricultural production system. Moreover, this PPMP proposes to develop a set of training kits and envisages to further strengthen the technical capacity of Plant Protection Services at regional and local levels with the overall objective of reinforcing the control of pesticide usage, improve the knowledge of various key stakeholders (farmers, local vendors, regional agricultural technicians such as extension-workers, etc.) on the safe transportation, storage/disposal and application of agrochemicals products. Finally, it recommends the application of an integrated pest management approach coupled with the promotion of agro-ecological practices by the farmers' groups. The PMP was prepared and approved by the Association and disclosed both in-country and in the Infoshop on September 16, 2014. Involuntary Resettlement (OP/BP 4.12) is triggered due to the proposed Infrastructure and Agribusiness investments under the project since they could result in some acquisition of land, loss of income revenues/socioeconomic assets and livelihoods support resources. Since the physical locations of the proposed activities are unknown, the Borrower has prepared a detailed Resettlement Policy Framework (RPF). It builds upon the RPFs/RAPs prepared under PIC1. The RPF includes detailed information on legal and institutional

frameworks, eligibility criteria, assets evaluating methods, implementation arrangements, grievances redress mechanisms, resettlement budget totally covered by the Government and monitoring and evaluation. The RPF sets forth the basic principles and procedures/directives to be followed by the Borrower for the preparation of the Resettlement Action Plan (RAP) once the physical locations of the proposed activities are known. The RPF as well as the ESMF were disclosed on the project website (www.pic.mg) as well as in printed media (Midi Madagasikara and L'Express de Madagasikara) on November 3-5, 2014. Both documents were also disclosed in the Infoshop on November 5, 2014.

Annex 4: Operational Risk Assessment Framework (ORAF)

MADAGASCAR: Second Integrated Growth Poles and Corridors Program (SOP-1)

<table>
<tr><td colspan="7">Project Stakeholder Risks</td></tr>
<tr><td>Stakeholder Risk</td><td>Rating</td><td colspan="5">Moderate</td></tr>
<tr><td rowspan="2">Description:

Ownership and commitment by local stakeholders are essential for successful project implementation. Unless all key stakeholders and consulted and involved there is a risk that reforms get stuck, complaints surface and implementation progress stalls.</td><td colspan="6">Risk Management:

The task team will continue to engage closely with all relevant stakeholders to the project throughout implementation such as Chief of Regions, Mayors and head of local communes; the main business associations and key business leaders—in particular existing and new partners, as well as local community leaders. The Project Steering Committee made up of key line ministries will meet on a regular basis. Local consultative committees will be continue to be used at the regional level.</td></tr>
<tr><td>Resp: Bank and Client</td><td>Stage: Implementation</td><td>Recurrent:
☐</td><td>Due Date:</td><td>Frequency:</td><td>Status:</td></tr>
<tr><td colspan="7">Governance Risk</td></tr>
<tr><td>Description:

Governance weakened during the political crisis and a return to pre-crisis levels may take time.</td><td colspan="6">Risk Management: Moderate

The project is designed to focus strongly on improving economic governance through capacity building and economic reforms in PIC2-1 before more elaborative activities linked to public private partnerships and SOE reforms are undertaken in PIC2-2. The task team will also continue to rely on the experience and proven track record of the PIU core management team for PIC1. To lower the risk of a deterioration in the integrity linked to financial management and procurement, external accounting competence would be hired and embedded at arms-length distance in the PIU to control that procedures and sign off are handled correctly throughout project implementation.</td></tr>
</table>

	Resp: Bank and Client	**Stage:** Implementation	**Recurrent:**	**Due Date:**	**Frequency:**	**Status:**
Implementing Agency Risks (including fiduciary)						
Capacity	**Rating**	**Low**				
Description: Project Implementing Agency Risk is a concern in general in Madagascar.	**Risk Management:** PIC1 is rated Satisfactory across all its indicators. The current core management team in the PIU has eight years of experience of successfully implementing a large and complex development program. The smooth transfer from PIC1 to PIC2 keeping with the existing management team would ensure that the current satisfactory capacity stays intact. The task team would also encourage the PIU to access select and necessary training of quality training institutes.					
	Resp: Client	**Stage: Implementation**	**Recurrent:** ☐	**Due Date:**	**Frequency:**	**Status:**
Project Risks						
Design	**Rating**	**Substantial**				
Description: Technical Complexity. The project is complex since it involves two sectors and stakeholders in three regions. The PIU and task team is implementing an agribusiness pilot in Anosy and its partnerships at the lower end of the agribusiness value chains are encouraging. However, a closer and larger scale engagement further upstream poses more of a risk depending on the level of coordination and organization by the economic agents.	**Risk Management:** First, the integrated approach gives rise to complexity but it also lowers project implementation risk since it addresses several issues in parallel in order to achieve the PDO. Second, PIC2 is less risky than PIC1 with the SOP approach allowing for an initial phase of capacity building to improve governance and reform the investment climate before larger PPP transactions are expected in the second phase. The PIU and task team also have eight years of successful implementation experience. The cost of transition would therefore be minimized. The stakeholders in the regions, except for Atsimo-Andrefana, are familiar with the mode of operation. Third, the design risk is reduced by a strong central team in the capital and competent technical teams decentralized to the regions that lead the daily dialogue with public and private partners and oversee contractors. Fourth, the design is based on inclusive consultations with all stakeholders and this inclusive approach would continue throughout project implementation with local Steering Committees (as now) in addition to a strong central board anchored at the top of the GoM to ensure full commitment and ownership. Fifth, the project is strengthening its approach to rely on PPPs to crowd in private investment and ensure private participation in designing, implementing, monitoring, and maintaining public investments.					

	Resp: Client	**Stage:** Implementation	**Recurrent:** ☐	**Due Date:**	**Frequency:**	**Status:**
Social and Environmental	**Rating**	**Substantial**				
Description: The project will cover investments in hard infrastructure as well as basic services which will include civil works and potential concerns linked to environmental and social outcomes. Agribusiness develop could result in soil degradation. Tourism investments could affect coastal areas and involve an adverse environmental and/or social impact.	**Risk Management:** The great majority of the proposed activities would improve social and environmental standards but specific activities could have adverse effects. The PMP, ESMF and RPF have all been prepared and disclosed and will guide the management of associated risks.					
	Resp: Client	**Stage:** Implementation	**Recurrent:** ☐	**Due Date:**	**Frequency:**	**Status:**
Program and Donor	**Rating**	**Moderate**				
Description: There is a risk of misalignment among partners on similar activities and competing projects may overstretch the PIU and stakeholder capacity and slow down implementation. Development partners such as OFID, AfDB and EU are covering energy sector activities and national road rehabilitation schemes in the regions. Extensive delays or cancellations of agreed donor partner investments could reduce the return on investment within the targeted regions.	**Risk Management:** Several infrastructure upgrading projects are currently undertaken by development partners in the targeted regions. All major donor partners have been consulted extensively and critical road transport corridor upgrading for >$100million by donor partners will drastically improve market access in each region. These works are already underway and there is little risk that contracts entered into by these development partners with private contractors will be negated. The OFID energy activities will benefit private investors and households alike in the targeted regions. Importantly, while these separate activities are advantageous to the private sector development and investors the Project and its achievement of the PDO are not relying on these rehabilitation works.					
	Resp: Client	**Stage:** Implantation	**Recurrent:** ☐	**Due Date:**	**Frequency:**	**Status:**
Delivery Monitoring and Sustainability	**Rating**	**Low**				
Description:	**Risk Management:**					

There is a risk is that the capacity for M&E, planning and coordination by the PIU would deteriorate.	The capacity of the PIU on M&E has been strengthened through successive restructurings (2008 and 2012) and it has been brought up to best practice levels in the new project with the Enterprise Survey providing micro-level and baseline data for 2,100 formal and informal enterprises in addition to the project's established relationship with EDBM and INSTAT. A household survey is being prepared for the fall of 2014 and an economic impact assessment report builds on the enterprise survey data from 2014 and provides input and lessons learned for the project design as well as M&E work.					
	Resp:	**Stage:**	**Recurrent:**	**Due Date:**	**Frequency:**	**Status:**
	Client	Implementation	☐			

Overall Risk		
Implementation Risk Rating:	**Rating**	**High**
Comments:		
Project implementation risk is rated high due to the country risk and the complexity of the proposed project. However, the continuation of the existing project approach, PIU and task teams do mitigate some of these risks as do the strong partnership and engagement with the private sector, local authorities, and other donor partners. The phased approach—focusing on improving governance and building government capacity before implementing activities with involving more risk—allows for a reduced implementation risk profile in PIC2-1. The implementation risk is sensitive to donor partner funding and timely execution of energy and national road works on key road transport corridors. SOE engagements with ADEMA, Air Madagascar and JIRAMA are unpredictable given these companies' fragile finances, weak governance and monopoly positions.		

Annex 5: Implementation Support Plan

MADAGASCAR: Second Integrated Growth Poles and Corridors Program (SOP-1)

Strategy and Approach for Implementation Support

Implementation Support Plan

Time	Focus	Skills Needed	Number of Trips	Resource Estimate
Year 1	Task Management	Project management (HQ and Antananarivo)	3	12 staff weeks (SWs)
	Implementation support and Monitoring	Investment Climate Team (Nairobi based) and PPP Specialist (Dar es Salam based)	4	4 SWs
	Procurement support	Procurement Specialist (Antananarivo based)	0	2 SWs
	FM supervision	FM Specialist (Pretoria based)	2	4 SWs
	Performance Standards	Environmental/Social Specialists (Antananarivo and HQ based)	2	3 SWs
Year 2-4	Task Management	Project Management (HQ and Antananarivo based)	2 per year	10 SWs per year
	Implementation support and Monitoring	Investment Climate Team (Nairobi based) and PPP Specialist (Dar es Salam based)	3 per year	4 SWs per year
	Procurement support	Procurement Specialist (Anatananarivo based)	0	2 SWs per year
	FM supervision	FM Specialist (Pretoria based)	2 per year	4 SWs per year
	Performance Standards	Environmental/Social Specialists (Antananarivo and HQ based)	2 per year	3 SWs per year

Partners

Name	Institution/Country	Role
African Development Bank	Cote d'Ivoire	Road Sector Partner
European Union	Belgium	Road Sector Partner
OPEC Fund for International Development (OFID)	Austria	Energy Sector Partner

Annex 6: Selection of Proposed Regions and Sectors

MADAGASCAR: Second Integrated Growth Poles and Corridors Program (SOP-1)

1. The task team visited Antsirabe, the Diana Region (Antsiranana, Ambilobe, Ambanja, Nosy Be) Tolagnaro, Mahajanga, Toamasina and Toliara during scoping missions in FY13 to meet with public and private sector representatives. The missions were used to collect data, solicit public and private sector interest for partnerships with the WBG, and assess the regions' potential for private sector-led job creation and growth.

2. The matrix below summarizes the main conclusions of these visits. First, Toamasina was considered risky from a project design and implementation perspective with social and environmental concerns. Toamasina is an established growth center in Madagascar due to Sherritt's US$6.0 bn investment and it is unclear what additionality the project would offer. For Antsirabe, the region is economically rich with a strong private sector and impressive human capital and institutions but, due to the limited available budget, a strategic choice had to be made and the selection of other regions (i.e. Toliara) with higher poverty levels than Antsirabe and with high growth potentials was prioritized. Antsirabe could be considered in a later phase of the project.

3. Three regions showed all the promising signs that the task team sought: (i) presence of an anchor investor(s) and/or sizeable cluster(s) of competitive export-oriented firms willing to invest and expand; (ii) the potential for adopting a multi-sector approach; (iii) a strong public and private interest in partnering with the WBG to promote private sector development, employment, and shared prosperity; and (iv) real potential to leverage new infrastructure investments and ability to unlock economic potential through the removal of key bottlenecks—particularly through public private partnerships. The expansion of PIC1 from Nosy Be to cover the 250 km northern corridor from Ambanja to Antsiranana would bring more jobs and basic services to an area covering up to 660,000 inhabitants. It would be a low-risk and natural next phase in the development of the region. The continued presence of PIC1 in the Anosy Region would allow the project to leverage its partnership with Rio Tinto QIT Madagascar Minerals (QMM) to develop Ehoala Park, next to Ehoala Port, into a world class facility that would spur tourism, fishing and agribusiness development in the poor southeastern region. The continued presence in both the Anosy and Diana Regions would also help protect the legacy of PIC1 in terms of good governance and maintenance of shared infrastructure. Finally, the Atsimo-Andrefana Region is host to a large population suffering some of the highest levels of extreme poverty in Madagascar (see Figure 5).[10] It is also home to a largely untapped mineral wealth which a large number of mining companies are prospecting. AfDB sponsored road rehabilitation in the region would also unlock some rich agriculture regions that previously lacked decent access to seaports.

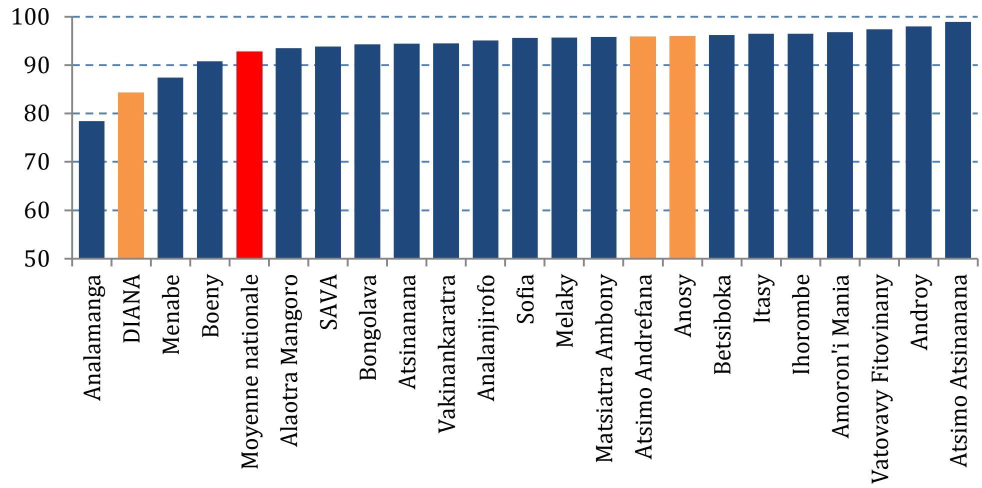
[10] The latest poverty analysis conducted the by the World Bank presents a national poverty rate of 92.8% for Madagascar in 2010 (as per a threshold of US$2 per day). At the regional level, 18 of the 22 regions of the country have an average poverty rate higher than the national level.

Summary assessment of regions

	Strengths/Opportunities	Disadvantages/Threats	Conclusion
Mahajanga	- Established seaport facing Mayotte and good airport - Good urban roads and road connection to capital - Lots of idle land with poor accessibility - Popular destination for domestic tourists from the capital 3 months per year - Potential partnership with AFD to upgrade local markets	- Largely deindustrialized - Unpredictable and costly electricity - Concerns about governance in the port - Few private sector partners - Informal economy	Negative outlook provided by the private sector. Lack of anchor sector and partners as economy is informal and linked to fishing and trading.
Toamasina	- Established long-term anchor investor in Sherritt willing to partner - Madagascar's main seaport - Madagascar's second economic center	- Already established growth pole - High social, environmental and governance risks - Unclear additionality of project	Already an established center of sustained economic growth due to Sherritt's US$6.0 bn investment and the hosting of the country's main seaport and nation's oil storage. Social, environmental and governance issues would expose the project to very high risks.
Anosy Region (Tolagnaro)	- Presence of world class deep water seaport (Ehoala Port) with idle capacity along major international shipping lane - Possible future construction of a second wharf with containerization terminal for transshipment. - Potential to develop Ehoala Park into a regional state-of-the-art multi-purpose mixed industrial, logistics and commercial facility. - Strong partnership with anchor investor (Rio Tinto QMM) with the ambition to invest and develop a new mine at the right time. - Possibility to protect achievements in PIC1 regarding sanitation, water supply, solid waste management, and energy supply - Continuation of an 8-year presence with strong local PIC1-business networks and commitment by local authorities and businesses to collaborate. - Potential to leverage EU's rehabilitation of RN12A and RN13 to connect to agricultural heartland and expand agribusiness pilots. - Ideal for fighting extreme poverty and promoting shared prosperity. - Urban infrastructure upgraded by PIC1 and in good shape.	- Lack of decent road connections to the capital and other major towns - Disorganized agricultural value chains - Depressed (price) outlook for the mining/ilmenite industry has postponed large planned investments	The scope to help create jobs linked to Ehoala Port and Ehoala Park is significant and project interventions would not be too costly given the achievements of PIC1. The strong partnership with Rio Tinto QMM to upgrade and/or maintain basic services and shared infrastructure would continue. The organization of commercial agriculture along value chains has promising potential to reduce extreme poverty in the region.
Atsimo-Andrefana Region (Toliara)	- Privately operated seaport and airport. - Large population in desperately poor area in need of jobs - "Madagascar's next mining center" - Presence of two local universities - End of established and leading wildlife and eco-tourism trail - Large cluster of hotels - Good road connection (RN7) to capital - Partnership with AfDB that is rehabilitating RN9 unlocking agribusiness potential north of Toliara - Presence of several commercial agriculture and aquaculture value chains	- High expectations of economic upswing and risk of social unrest - City prone to flooding - Low levels of human capital - Dry region with scarce water sources - Large inflows of migrants - Windy conditions reducing potential for beach tourism (but great for surfers) -Volatile power supply	Region with particularly high poverty levels but rich in natural resources. One of few cities with a good road connection to the capital and recently upgraded seaport and airport facilities on the beaten track for the rapidly growing tourism sector. Extensive consultations at all public levels and with the private sector indicate strong support for project engagement in the region.

Diana Region/northern circuit (Nosy Be to Antsiranana)	- Extension from an 8-year presence in Nosy Be to cover the Northern Corridor from Ambanja to Antsiranana - Strong local PIC1-business networks and commitment by local authorities and businesses to collaborate. - Strong existing tourism sector in Nosy Be can be leveraged to grow the northern tourism circuit - Sizeable existing cluster of commercial agriculture and processing facilities - Idle land for expansion of agribusiness in Ambanja and Ambilobe and tourism in the old town of Antsiranana and surrounding beaches and parks - Upgraded seaports in Nosy Be and Antsiranana - Sizeable industries linked to aquaculture, salt production, and cocoa, tuna, sugarcane and essential oils processing - Potential partnerships with AFD and AfDB - Feasibility work for regional renewable energy pilot with an autonomous local Jirama branch - Lots of unexploited public land.	- Upgrading of RN6 essential between Ambilobe and Antsiranana to realize potential - Jirama in Antsiranana is struggling - Freeing up public land for productive investments risky process given governance situation.	A natural development to expand from the successful tourism growth pole in Nosy Be to cover the northern growth corridor between Nosy Be/Ambanja and Antsiranana, leveraging the northern tourism circuit, and its cluster of seafood and agribusiness firms in one of Madagascar's most fertile areas.
Antsirabe	- Strong human capital and local colleges - Decent infrastructure and free zones - Strong public and private institutions - Good road connections - Potential to upgrade "almost completed" airport for commercial cargo - Cluster of light manufacturing firms - Established firms willing to partner in light manufacturing and agribusiness - Existing PIC1 network from 2006-09 activities - Low power prices	- Wealthy area (reducing the relative scope for tackling extreme poverty)	Strong contender with most attributes for a growth poles approach: governance, strong human skills, strong established firms, strong private sector demand for Bank partnership. However, due to political factors the Project Design and Project Implementation risks would be difficult to mitigate.

Figure 5: Poverty rate among the regions (US$2, PPP per day)



4. The task team studied five sectors in which Madagascar has a revealed comparative advantage. Four of them—tourism, agribusiness, textiles and clothing, and IT-BPO—are sectors that are labor-intensive and have the potential to produce a large number of jobs to poor communities and idle youth. Tourism and agribusiness are important sources of employment in the three regions identified above. The mining sector is strong in the Anosy and Atsimo-Andrefana Regions. Textiles and clothing and IT-BPO are predominantly located in and around Antananarivo and a few other towns in the highlands of Madagascar. These latter two sectors would benefit from the proposed interventions on the national level but not be covered by the activities in the proposed regions.

5. **Tourism**: Madagascar's most compelling draw for tourists is its distinctiveness with an astounding biodiversity of endemic flora and fauna. It also offers beach tourism, hiking, adventure sports, cultural encounters, etc. and the sector enjoys a high average length of stay (21 days) and return rates (40 percent) among leisure tourists. After years of strong growth, international tourist arrivals plummeted by 57 percent in 2009. Since then, however, the sector has displayed impressive resilience with arrivals growing by an annual 16 percent on average. 5.4 percent of GDP can be directly attributed to tourism and 14.9 percent of GDP can be attributed to tourism when indirect and induced impacts are factored in. The sector directly employs 6.5 percent of the country's formal workforce and 12.5 percent if both direct and indirect jobs are counted. The main constraints for the sector include the high price and poor reliability of air access, the poor road network, policy framework gaps, limitations in tourism infrastructure, inconsistent quality standards, unclear land administration, the supply and cost of electricity, and increasing insecurity. Tourism could become an important contributor to the country's economic revival through job creation and income generation across the country's regional and socio-economic spectrum if the constraints were addressed.

6. **Agribusiness**: Malagasy agriculture generates around 30 percent of GDP and serves as the principal livelihood source for 70 percent of the population. Madagascar produces and exports a large number of cash crops, including cashew, cloves, cocoa, coffee, cotton, pepper, sugar, vanilla and essential oils. For those high value crops, almost 90 percent of the production

is sold. Malagasy cocoa is one of the highest quality cocoa products in the world. Malagasy agriculture is characterized by smallholder farms with an average cultivated area of 1.5 ha but only a few of them participate in commercial activities. Fewer than 25 percent of rural households derive a significant portion of their income from sales of agricultural commodities and 40 percent of agricultural output is ever sold. The five major constraints that contribute to Madagascar's stagnant agricultural sector are: (i) low productivity at the farm level, (ii) high transportation costs, (iii) disorganized marketing channels, (iv) an unfavorable business climate, and (v) weak institutions and inconsistent policies. Madagascar could achieve its national poverty reduction objectives if it builds a modern, commercially-oriented agriculture sector that can compete in domestic and foreign markets. This would require a rise in yields at the farm-level and improved performance of agricultural value chains. More and better use of certification of origin and organic or fair trade certifications could help increase both the quality and price of cash crops. Enhancing quality control and organizing producers along value chains would be essential activities.

7. **Textiles and clothing**: the Malagasy garment sector is based on FDI in particular from East Asia and Mauritius and it is based mainly around Antananarivo and in the Analamanga region in addition to smaller clusters in the Antsiranana, Vakinankaratra and Diana regions. In 2008, the export-oriented sector covered 108 free-zone enterprises, employing 51,000 staff, and exporting US$937 million worth of goods (HS50-63). The United States absorbed most output until 2009 when Madagascar lost duty-free access to the US market under AGOA. Malagasy exports of textiles and clothing dropped by 51 percent in 2009 and an additional 29 percent in 2010 (to US$330 million). In 2010, the sector employed 39,000. The situation improved in 2011 as exports bounced back by 22 percent with a revival of exports to the EU, which exceeded the 2008 level. Local, non-exporting firms suffered more than international, export-oriented firms. Main impediments are relatively high electricity, water and transport costs, and the unreliable and volatile cotton quality of local producers which has increased the dependency on imports. Burdensome customs procedures, inadequate technical and vocational training, and Air Madagascar and Air France's air cargo duopoly are other issues raised by the industry.

8. **Business process services:** international sourcing of IT and business process services (IT-BPO) is a global industry that generates >US$100 bn in export revenue and millions of jobs for young staff with tertiary education and language skills in low- and lower-middle-income countries. Madagascar's IT-BPO industry is still modest but it has expanded rapidly since 2005 with improved telecoms (through the EASSY and LION cables), very inexpensive skills and decent offices in Antananarivo, and an annual output of 57,000 mostly francophone graduates. Jouve Madagascar and Vivetic employ 1,950 and 1,400 staff respectively, tapping into the US$3.5 bn IT-BPO offshoring market in France. Another four firms have 200-660 BPO agents and a large cluster of companies have less than 100 staff. A five year period of relative stability and trend growth would likely at least triple employment in the sector to 20,000 staff according to sector representatives. It could be a strong jobs platform absorbing the country's highly skilled but mostly unemployed urban youth. The entry wage for a BPO agent is thrice the monthly wage of a garment worker in Madagascar and yet a third of the entry wage in competing export markets. The main challenges that the sector face are linked to moving up the value chain, generating more firms with scale, organizing the sector, strengthening technical education, improving the reliability and lower the cost of electricity, improving the regulatory and taxation environment, and upgrading select techno parks.

9. **Mining**: while artisanal mining employs up to half a million Malagasy, the mining sector has recently been boosted by the mining investments of Rio Tinto QMM ($1.2bn) in Taolagnaro and Sherritt ($5.5bn) in Ambatovy. Rio Tinto QMM started shipments in 2009 and Sherritt in 2012 and these long-term projects have had a strong impact on Madagascar's trade and investment flows. But both companies have been victims of the deteriorating governance situation in the country. Rio Tinto QMM announced in the fall of 2012 that it would shelve its plans to develop a new $2bn ilmenite mine in the Anosy Region and few companies have obtained mining permits since 2009 as part of the restrictions under the political roadmap. In Toliara Province, where most identified deposits are located, a large number of mining companies are awaiting mining permits to commence operation once a new administration is in place. An investment boom is expected once the political environment stabilizes and governance improves.

Annex 7: Economic and Financial Analysis

MADAGASCAR: Second Integrated Growth Poles and Corridors Program (SOP-1)

1. This economic and financial analysis is based on a cost-benefit analysis (CBA) that identifies the costs and benefits to whoever and wherever they accrue. The assessment measures the wider economic impacts on welfare, revenue and trade from the government perspective. The analysis provides an assessment of three sectors: (a) the tourism sector, (b) the agribusiness sector, and (c) the private sector in urban areas.

TOURISM SECTOR

2. The growth of the sector has been impaired by political instability and the weak and expensive services provided by the domestic *de facto* air access monopoly. The most recent period of political unrest that struck Madagascar in early 2009, and which lingered until peaceful elections in early 2014, put an end to years of strong growth in tourist arrivals. International tourist arrivals plummeted by 57 percent in 2009; or from 375,000 in 2008 to 163,000 in 2009. Since then, however, the sector displayed impressive resilience and the number of tourist arrivals grew by an average of 16 percent per year over the last three years—despite the lack of resolution to the political crisis and economic stagnation in Madagascar's principal source markets in Europe. This is testament to Madagascar's enduring appeal as well as the sector's ability to adapt to challenging conditions. The 255,000 international arrivals in 2012 are still lower than the corresponding number in 2008.

3. The objective of tourism support activities under the project is to increase tourist arrivals in the target regions of Diana and Atsimo-Andrefana, and facilitate FDI in the sector. This objective will be met through various activities (investment promotion, improvement of the business environment, strengthening of stakeholders' coordination, development of new touristic sites, roads rehabilitation, development of sanitary infrastructures (water and sanitation and electricity), and the provision of tailored training programs).

FINANCIAL ANALYSIS

4. This section first looks at the internal rate of return (IRR) of a new hotel in Madagascar and in particular in the two target poles. Assumptions are taken from the Enterprise Survey 2014 and it corresponds to a high-standard hotel. The main assumptions are summarized in Table 9.

Table 9: Assumptions for a hotel in Madagascar

Assumptions	
Investment per room (US$)	300,000
Costs of raw materials per guest-full time per day (US$)	22
Number of employees (number per room)	2.1
Average salary of employees per month (US$ per employee)	50
Price of a double room per night (US$)	110

Source: ES 2014 and authors' assumptions

* Include food, drinks and other activities proposed by the hotel

5. Given these assumptions, the financial balance sheet of the hotel indicate that a 16 percent IRR over a 10-year period requires an 65 percent occupancy rate (average calculated per annum) and daily expenditures for an average tourist (excl. airfares) of US$220. These results have to be compared to the analysis conducted in the Madagascar Tourism Value Chain Study (2007) which indicates that in 2007, a median tourist spent on average US$156 per day (excl. airfares). An increase in daily expenditure seems reasonable if we assume that new marketing strategies, the establishment of high-standard and luxurious hotels and the upgrading of existing hotels will attract wealthier tourists. In addition, the reform of the air sector may result in a decrease of ticket prices. For a tourist, this saving is likely to be partly re-used and spent in the country. Regarding the occupancy rate, the Enterprise Survey 2014 indicates that most hotels reported an occupancy rate equal to about 63 percent during the peak season and about 33 percent during the low season, resulting in a much lower occupancy rate on average over the year than the 65 percent calculated above.

6. This financial analysis indicates that more efforts are needed to: (a) increase the occupancy rate, which means an increase in tourist arrivals but also an increase in the duration of the stay, and (b) attract tourists with a higher purchasing power or willing to spend more on activities in the country. As shown in Figure 6 and Figure 7, the IRR of a high-standard establishment is particularly sensitive to the daily expenditure of tourists at the hotel. This may also explain why there are a handful of high-standard hotels currently operating in the target regions (see Figure 8). As a matter of fact, most hotels in the target poles do not have any international classification while in Nosy Be (target pole of the PIC1), 44 percent of the establishments have a hotel star rating.

Figure 6: IRR for a high-standard hotel – *Variable* occupancy rate (%) and *fixed* daily expenditure (US$)

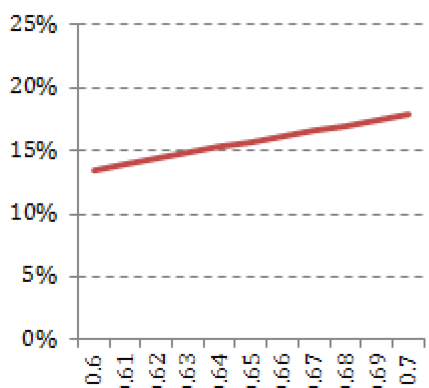
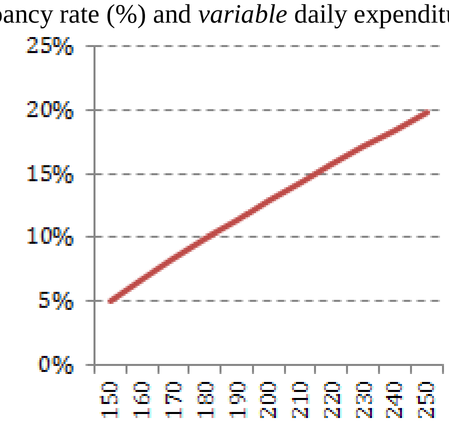
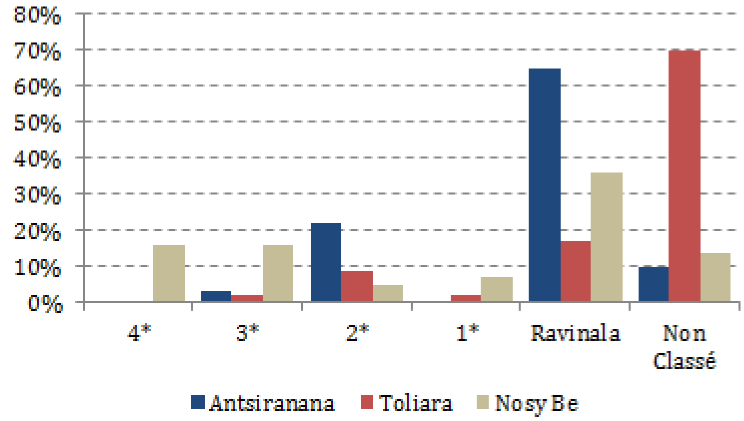


Figure 7: IRR for a high-standard hotel – *Fixed* occupancy rate (%) and *variable* daily expenditure (US$)



Note: Here we assume that tourists spend 80 percent of their daily expenditures in the hotel (room price but also food, beverages and any other activities).

Figure 8: Proportion of registered hotels by category in 2013



Sources: Ministère du Tourisme, Directions Régionales du Tourisme et Offices Régionaux du Tourisme

Economic analysis

7. Most of the project investments provide necessary infrastructure to attract hotel capacity development, enabling regions to support a greater tourist inflow both in existing and new properties.

Methodology

8. The economic benefits of the project are based on a projected increase in additional tourist activity in two target poles (both in terms of volume and daily expenditure), compared with tourist activity in the without project situation. Specifically, the economic analysis of the incremental economic benefits from the various activities depends: (a) the additional number of tourists that will come to the Diana and Atsimo-Andrefana Regions staying in existing and future hotel capacity, and (b) the economic rents that will be collected from current and additional tourists.

9. Tourism rents can be captured through airport and visa fees, hotel taxes (room fees, value added tax and income tax) and fees to enter tourism sites, such as national parks and reserves. If GoM, as the owner of these natural resources, is not putting forth the efforts and regulations necessary to capture these rents, they ultimately end up in the hands of the private sector (which is not necessarily bad if rents remain within the country as extra-wage earnings for the local population) or remain in the pockets of tourist (that is, the tourists' full willingness to pay to enjoy these natural resources is not maximized).

10. Consequently, major categories of incremental economic benefits from the component will be: (a) direct revenues to GoM and local municipalities from tourism (visa fees, hotel taxes), (b) fiscal revenues from additional touristic activities (income tax paid by hotels, restaurants, transportation services, and other services activities), (c) additional revenues for the local population employed in the new hotels or existing hotels experiencing an increase in activity, and (d) the portion of tourist's willingness-to-pay surplus that can be tapped through an excursion site entrance fee or any other activity, assuming a demand for recreation inelastic to a moderate price or fee.

Economic benefits

11. **Hotel taxes.** Hotels collect a nightly hotel tax on the room, food and other services provided to guest. This tax is between MGA600–3,000 per night, depending on the standard of the hotel. This tax is independent of the total bill and earmarked for the National Office of Tourism. In addition, hotels should pay a 20 percent income tax on net revenue.

12. **Fiscal revenues linked to additional touristic activities–new hotels.** The economic analysis is based on the assumption that new investment in tourism does not generate a crowd-out effect. In other words, in a pessimistic scenario, the number of tourists would not increase rather tourists will go to new hotels, limiting the revenues generated under the project as a whole. In an optimistic scenario, a new marketing strategy, new air transport routes, new and/or better managed touristic site, and upgraded rural and urban infrastructure will attract more tourists. We assume that the number of tourists is proportional to new investment in the target poles.

13. **Fiscal revenue linked to additional touristic activities–additional revenues for existing hotels.** As calculated above, the project expects a tourist to spend on average US$220 per day (including hotel room) and stays on average 21 days in the country. This generates additional activity in the poles because visitors spend their money on hotels, restaurants, transportation, guide services, souvenirs and other day-to-day expenditures. Although not all of these expenditures directly benefit the Malagasy economy (for example, vehicles and fuel used for transportation are usually imported), a portion of the expenditure (here we assume 80 percent) can be counted as tourism rents. We consider that each enterprise that is involved in the tourism sector (restaurants, other hotels, transportation services) and benefited from this tourism rent will want to have the same IRR as the hotel taken as reference in the Financial Analysis (see above) and will pay taxes to the government on their revenues.

14. **Additional income for new employees.** First, new hotels will create new jobs (2.1 per room). According to the Enterprise Survey (2014) and interviews, workers are paid between MGA1.5 million and MGA3.0 million per year (equivalent to US$600-1,200 per year) depending on the type of hotels and qualifications of employees. Second, if tourists spend four nights on average in a hotel, they spend 21 days in total in the country. New visitors will then generate additional activity in existing hotels. These hotels are likely to employ new workers to meet the additional demand.

15. **Willingness-to-pay and entrance fees.** Many national parks do not impose entrance fees at all and tourists are not asked to comply with any rules or regulations concerning the use of the natural resources. The tourism support program will design and develop well-managed touristic sites and support GoM in setting up the 'right' entrance fees and mechanisms to collect them in order for the sites to be financially viable and sustainable. In this analysis, we consider that foreign visitors would pay a fee of about US$11 per site. We also assume that tourists have an elastic demand to moderate entrance fees for excursions and natural parks. Therefore these entrance fees are not part of the daily expenditures (US$220) but are considered an additional expenditure. Half of this revenue is given back to the local authorities. We assume three visits per tourist per stay.

Economic Costs

16. Economic costs associated with the tourism support activities are:

- ✓ Investment Climate and Investment Promotion will help attract investors and indirectly affect the rooms and the number of visitors;
- ✓ Strengthening the enabling environment for tourism sector (US$5.8 million) will affect: (a) the crowd-out effect – without a proper marketing strategies, the number of new visitors will be smaller and existing tourists will go to new hotels, lowering the impact the additional touristic activity; (b) the daily expenditures. In particular, the development of new air transport routes will increase competition among companies, decreasing ticket prices and increasing visitor's daily expenditures; and (c) the establishment of an entrance fee for national parks and new sites being designed and developed under the project;
- ✓ Regional Tourism Sector Development (US$5.0 million) will affect: (a) the crowd-out effect (see above), (b) develop new touristic sites, thereby affecting the number of national parks that tourists will visit during their stay in Madagascar;
- ✓ Urban and rural road infrastructure and water, sanitation and solid waste management will affect the number of tourists visiting the country;
- ✓ Local governance activities will affect the amount of money flowing to municipalities; and
- ✓ Training programs (US$1.5 million attributed to tourism) will directly affect worker productivity and indirectly the daily expenditures.

Results and Scenarios

17. **Results for PIC2-1.** A study on potential investors in tourism financed under the PPA resulted in expressions of interest for investing in tourism in the targeted regions from seven companies, for a total of US$145 million in the Diana Region and US$123 million in Atsimo-Andrefana Region. The Atsimo-Andrefana region has experienced a substantial growth in hotel developments over the last years. The number of rooms has more than doubled in these regions between 2005 and 2013 (from 730 to 1465 rooms). For Phase I, we estimate that by 2024, some US$60 million and US$45 million will be invested in hotels in the Diana and Atsimo-Andrefana Regions respectively. Overall, this will translate into 1,500 new rooms, *i.e.* a 60 percent increase compared to the current situation. For these hotels to be profitable (about 16 percent IRR), the number of tourists has to increase substantially. If we assume that 60 percent of the tourists will visit both places, the total amount of investment needs to translate into 19,000 additional tourists minimum per annum by 2024. If this number seems realistic given the current tourist arrivals in 2012 (255,000), it will likely be driven by exogenous factors, such as improved political stability.

18. **Results for PIC2-1 and PIC2-2.** The overall SOP will translate into a total of 140,000 new tourist arrivals in the country by 2024.

AGRIBUSINESS SECTOR

19. Malagasy agriculture generates around 30 percent of GDP and serves as the principal livelihood source for 80 percent of the population (INSTAT). Madagascar produces and exports a large number of cash crops, including cashew, cloves, cocoa, coffee, pepper, sugar, vanilla and essential oils. For these high value crops, almost 90 percent of the production is sold. Exports (both in volume and value) decreased from 2008 to 2010 but are increasing since 2011. Malagasy agriculture is characterized by smallholder farms with an average cultivated area of 1.5 ha but only a few of them participate in commercial activities. Fewer than 25 percent of rural households derive a significant portion of their income from sales of agricultural commodities and 40 percent of agricultural output is ever sold.

20. The objective of the agribusiness support program is twofold: (a) to boost exports for target cash crops; and (b) to promote inclusive growth through larger benefits accrued to the rural population and producers and an increased productivity. These objectives would be met through various activities (improvement of the business environment, strengthened coordination along the value chains, support to key research institutions and TVET institutes, the provision of tailored training programs, rural road rehabilitation, construction of key priority projects in villages, etc.

21. This analysis covers the two main value chains: (a) cotton in Atsimo-Andrefana, and (b) cocoa in Diana.

Methodology for the economic analysis

22. The economic benefits of the project are based on a projected increase in agriculture production in two target poles but also an enhanced organization of the value chains that will lead to a better redistribution of benefits across the value chain. This will be compared with agricultural production and revenues in the without project situation. Specifically, the economic analysis of the incremental economic benefit from the various activities depends on: (a) the number of additional producers that will participate in the cotton and cocoa value chains in the Diana and Atsimo-Andrefana Regions; and (b) the yields for each of these cash crops (or in other words, the productivity of farmers).

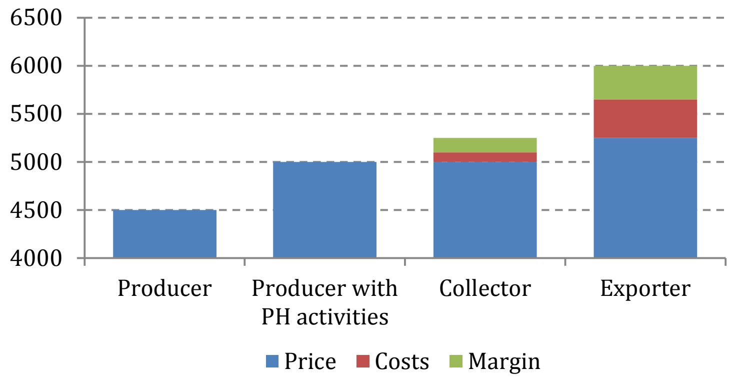
23. As for tourism, there are many ways of capturing the benefits of the project. One is to look at exports and contribution to GDP. Another is to assess the impact at the micro level by considering the key stakeholders of the value chains (producers, collectors, exporters) and the revenues accrued to GoM. This analysis is based on the second option. Consequently, major categories of incremental economic benefits from the component will be: (a) fiscal revenues to GoM and local municipalities from additional economic activity generated in the two regions; and (b) additional revenues for producers.

Economic benefits

24. **Additional revenue for producers.** The value chain studies indicate that along the Sambirano river (Ambanja district), about 33,000 people (on 23,000 ha) are involved in cocoa production. However, two-thirds of the production is only accessible by boat, motorcycle, or walking, thereby lowering the total production, discouraging producers to invest in their cocoa

trees and/or leading to very thin margins for producers. Cocoa represents 60-80 percent of farmers' revenues; the remaining is earned from vanilla, pepper and coffee as well as other activities. The average yield is 300-500 kg of dried cocoa per ha per year. The actual purchasing price is MGA1,200-1,800 per kg. The overall program will open up new regions, thereby increasing the number of producers involved in cocoa production and the number of cultivated and marketed land (up to 50,000 additional ha). Training programs, inputs and equipment will also increase the yield (up to 650 kg per ha) and increase the quality of the product. An enhanced coordination among the various stakeholders (producers, collectors and exporters) may bring transparency to the functioning of the value chain and lead to a more equitable redistribution of margins across the actors in this value chain.

Figure 9: Purchasing price, costs and margins for stakeholders along the cocoa value chain (for 3 kg of fresh cocoa or 1 kg of dried)



Source: Authors' computation from field interviews

25. About 30,000 producers (50,000 ha) are involved in cotton production. Based on the assumption that a farmer has 2 ha with an average yield of 650 kg per ha, a farmer produces about 1.3 ton of raw cotton a year. Cotton production requires a substantial amount of inputs, which are usually pre-financed by an exporter (about MGA430,000 per ha). The current purchasing price of cotton in Madagascar is MGA840/kg. Similarly to cocoa production, the project will lead to new arable land being used for cotton, thereby increasing the number of ha with cotton (about 50,000 additional ha). In addition, the project will support farmers in increasing their productivity (up to 1,000 kg per ha).

Economic Costs

26. Economic costs associated with tourism are:

- ✓ Strengthening the enabling environment for agribusiness sector (US$2.5 million) will help producer associations to coordinate, thereby increasing the transparency of the sector;
- ✓ Regional Agriculture Sector Development (US$4.0 million) will raise the quality of the products being targeted under the project (thereby increasing the export prices) and provide inputs and equipment for farmers to increase productivity;

- ✓ Urban and rural road infrastructure will increase the number of farmers involved in agricultural production.
- ✓ Local governance activities will finance priority projects for each fokontany (US$1.0 million), especially water sources, water sanitation, inputs for agriculture, thereby increasing the production of workers in these fokontany;

Economic Benefits

27. Phase I of the project will lay the foundations for a sound development of cash crop value chains but rural infrastructures will be financed under Phase Two. Technical assistance to farmers, a better coordination and organization of the value chains and a higher transparency of price setting will improve farmers productivity and rent, albeit not substantially. With Phase One only, the project will result in a slight increase in dried cocoa production from 5,000 tons in 2014 to 8,000 tons in 2019 and in ginned cotton from 11,000 tons to about 17,000 tons in 2019.

28. With Phases One and Two of the SOP, we find that the project will boost cocoa exports from about 5,000 tons of dried cocoa in 2014 to 21,000 tons in 2020 and the cotton exports from 11,000 tons of ginned cotton to 36,000 tons in 2020. It will result in a substantial increase in income for farmers that are involved in these two value chains.

URBAN DEVELOPMENT AND PRIVATE SECTOR

29. The project will support urban development in all its aspects and will therefore foster the development of a private sector in the target poles. Urban development nurtures economic growth through different channels. First, urban transportation projects alleviate poverty, in particular because improved transportation access might increase the likelihood that individuals are employed, or allow already employed persons to access better jobs, or simply reduce commute times and possibly increase individual welfare. Second, urbanization and improved transportation systems foster the creation of new firms. As a matter of fact, a better connectivity may increase the relative attractiveness of the location but also the concentration of firms is likely to bring important economies of scale and/or enhance firm-level productivity (better knowledge spillovers, match between workers and employers resulting in higher labor productivity and lower search costs for skills). To the extent that profit seeking entrepreneurs are drawn to more productive locations, it will result in higher firm birth rates than elsewhere. Third, as a result, more productive regions will grow more rapidly than less productive regions. Therefore these regions will exhibit higher employment growth.

The economic analysis here assumes that improved access to basic services, enhanced urban transportation systems and a more conducive business environment will increase the number of new firms (both formal and informal) in the target regions: an average 210 new firms per annum in Antsiranana (compared to 160 without project) and 136 new firms in Toliara (compared to 105 without the project). This translates into additional revenues for the municipalities, which falls into the 'fiscal revenues' category. Based on the experience of the PIC1 project, new registered firms are mainly micro-firms. Therefore, the economic analysis is not capturing job creation here.

Annex 8: Map of Madagascar with Spatial Focus Areas

MADAGASCAR: Second Integrated Growth Poles and Corridors Program (SOP-1)