

## PROJECT INFORMATION DOCUMENT (PID) APPRAISAL STAGE

Report No.: PIDA13686

<b>Project Name</b>	Integrated Growth Poles and Corridor Project 2 (P113971)
<b>Region</b>	AFRICA
<b>Country</b>	Madagascar
<b>Sector(s)</b>	General agriculture, fishing and forestry sector (15%), General public administration sector (18%), General transportation sector (14%), Water supply (26%), Other domestic and international trade (27%)
<b>Theme(s)</b>	Other public sector governance (7%), Infrastructure services for private sector development (38%), Micro, Small and Medium Enterprise support (25%), Export development and competitiveness (22%), Technology diffusion (8%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P113971
<b>Borrower(s)</b>	Ministry of Finance and Budget (MFB)
<b>Implementing Agency</b>	National Project Secretariat
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/Updated</b>	03-Nov-2014
<b>Date PID Approved/Disclosed</b>	03-Nov-2014
<b>Estimated Date of Appraisal Completion</b>	10-Oct-2014
<b>Estimated Date of Board Approval</b>	18-Dec-2014
<b>Decision</b>	

### I. Project Context

#### Country Context

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% level that the country enjoyed leading up to the political crisis.

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% as the tourism sector grew rapidly; a textiles and clothing industry flourished on the back of 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% 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.

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%. 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.

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% of the population living on less than US\$2/day (PPP). Nearly 60% 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% of new jobs were in the informal sector and 75% 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.

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 from the 40th quintile in 2007 to the 15th quintile in 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.

## **Sectoral and institutional Context**

Madagascar will need to develop labor-intensive and export-oriented sectors in which it has a revealed comparative advantage in 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.

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: 148/189 in 2014) and international competitiveness (Global Competitiveness: 130/144 in 2013). 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).

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.

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% in the Diana Region, 228% in the Atsimo-Andrefana Region, and 57% in the Anosy Region. 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.

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.

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.

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).

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.

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.

PIC2 has been designed to complement large ongoing infrastructure works financed by IDA and other development partners. The road rehabilitation works of RN 9 funded by AfDB and of RN6, RN12A and RN13 funded by EU and the WBG in the three selected regions will significantly improve market access and reduce transport costs along the targeted growth corridors. In addition, 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 also complement IDA-funded projects: (i) the Third Environmental Program has initiated a commercialization process to attract investment linked to natural parks together with MNP, (ii) the Emergency Infrastructure Preservation and Vulnerability Reduction Project is upgrading 20 km of RN6 outside Ambilobe and the northern corridor's two biggest bridges, (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 (under preparation) 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 (under preparation) will provide TA and cover WBG staff cost to facilitate implementation of the Investment Climate Reform Program, and (vii) the Madagascar Agriculture Rural Growth and Land Management Project (under preparation) will have a strong land tenure component which will complement PIC2 activities and make agribusiness investments more attractive in Madagascar.

## **II. Proposed Development Objectives**

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

## **III. Project Description**

### **Component Name**

COMPONENT 1: STRENGTHENING THE ENABLING ENVIRONMENT FOR ENTREPRENEURSHIP AND INVESTMENT

### **Comments (optional)**

27. 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.

### **Component Name**

COMPONENT 2: SECTOR BASED GROWTH IN THE ATSIMO-ANDREFANA, ANOSY AND DIANA REGIONS

### **Comments (optional)**

41. 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 complement an imminent AfDB-funded rehabilitation of 107 km 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.

### **Component Name**

### COMPONENT 3:PROJECT IMPLEMENTATION, M&E, SAFEGUARDS, IMPACT EVALUATION

#### Comments (optional)

69. This component will finance the PIU to manage and implement the project, comply with fiduciary rules and safeguards, and fulfill stringent 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 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 but be smaller.

#### IV. Financing (in USD Million)

Total Project Cost:	50.00	Total Bank Financing:	50.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			50.00
Total			50.00

#### V. Implementation

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 its responsibilities in accordance with the terms of the Financing Agreement.

Ministry of State (Ministère d'Etat chargé des Infrastructures, de l'Equipement et de l'Aménagement du Territoire, MEIEAT): will serve as the executing agency tasked with the oversight of the PIU. The Ministry of State will also chair a Project Steering Committee that includes key line ministries and public agencies which are affected by project activities.

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.

**Project Steering Committee:** The Project Steering Committee will consist at a minimum high level of representatives of the Recipient's ministries responsible for tourism, commerce, agriculture and rural development, and water, as well as a representative of the Office of the President. It will have a strategic oversight function role and be chaired by the Ministry of State and be established prior to project effectiveness. The Steering Committee will meet at least twice 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 details on proxy representation and quorum for meetings will be defined in the Project Implementation Manual.

**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 Chief Economic Advisor to the Presidency and established prior to effectiveness. In addition to the Chief Economic Advisor to the Presidency, it will consist of representatives from: (a) the Ministry of Finance and Budget; (b) the Ministry of Justice; (c) the Ministry of Commerce and Consumer Affairs; (d) the Ministry of Industry, Private Sector Development and Small and Medium Enterprises, (e) EDBM, and (f) private sector representatives.

**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 as part of the Project Implementation Manual. The Fund Manager will appraise funding requests and submit these to an Investment Committee for review and approval. The interventions funded by the MBIF will be subject to an annual audit.

**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.

## VI. Safeguard Policies (including public consultation)

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

**Comments (optional)**

**VII. Contact point**

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