



# Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 15-Oct-2020 | Report No: PIDC30338

**BASIC INFORMATION****A. Basic Project Data**

Country Madagascar	Project ID P174684	Parent Project ID (if any)	Project Name Madagascar Economic Transformation for Inclusive Growth (P174684)
Region AFRICA EAST	Estimated Appraisal Date Jan 04, 2021	Estimated Board Date Mar 17, 2021	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) Republic of Madagascar	Implementing Agency PIC National Project Secretariat	

**Proposed Development Objective(s)**

The Development Objective is to increase private investment and the growth of Small and Medium Enterprises in targeted regions in Madagascar.

**PROJECT FINANCING DATA (US\$, Millions)****SUMMARY**

<b>Total Project Cost</b>	100.00
<b>Total Financing</b>	100.00
<b>of which IBRD/IDA</b>	100.00
<b>Financing Gap</b>	0.00

**DETAILS****World Bank Group Financing**

International Development Association (IDA)	100.00
IDA Credit	100.00

Environmental and Social Risk Classification

Concept Review Decision



Substantial

Track II-The review did authorize the preparation to continue

Other Decision (as needed)

## B. Introduction and Context

### Country Context

**1. The adverse economic effects of the COVID-19 crisis in Madagascar have been substantial and are expected to be felt well into 2021 and beyond.** Prior to the COVID-19 pandemic, the macroeconomic performance of Madagascar was on a robust trend, in a context of increasing diversification, albeit from a low base. Following prolonged economic stagnation from the trough reached in 2009-2010, real growth had been steadily accelerating to reach an estimated growth rate of 4.8 percent in 2019, its fastest pace in over a decade. However, the shutdown of export markets, protracted travel disruptions, and constraints on domestic supply chains arising from containment measures have resulted in the first economic recession since the 2009 crisis, with gross domestic product (GDP) predicted to contract by at least 1.2 percent in 2020.

**2. SMEs have been particularly affected by the crisis, notably in the tourism and agribusiness sectors.** While all firms have been impacted by the economic slowdown, smaller firms have typically experienced more severe impacts from the pandemic-related shocks<sup>1</sup>. Firms whose turnover was in the 200M to 4BN Ariary (roughly USD 55K – 1.1M) range have experienced the biggest revenue contraction, by 51.2% on average, and have also been shedding the most jobs, unlike larger firms, which have been so far able to somewhat preserve employment levels.

### Sectoral and Institutional Context

**3. The impact of the economic shock has also been differentiated by sectors, with the tourism and agribusiness industries particularly hard hit by the collapse in demand and the interruption of intra-regional transport, respectively.** The agriculture and agro-processing sector plays a crucial role for employment, growth and poverty reduction, accounting for 23.2 percent of national GDP and nearly 64 percent of employment, while accounting for 40 percent of total export earnings, of which around 50 percent from vanilla proceeds. Exports fell 28 percent as compared to pre-COVID-19 levels as a direct consequence of the shutdown of foreign markets, negatively impacting the economic outlook. As in many countries, the tourism sector in Madagascar has been strongly impacted by the crisis, foregoing significant multiplier effects on growth. In 2020, growth of the sector was expected to generate up to US\$1.4 billion tourism receipts (exports of services), resulting in a doubling of the number of direct jobs in hotels and tourism enterprises, and increasing the direct contribution of tourism to GDP from 5.1 to 8 percent. Since the outbreak of the crisis however, 93.1 percent of firms in the industry have reported a very significant decline in revenue<sup>1</sup>, arguably making it one of the hardest hit sectors of the economy. Notwithstanding these negative impacts, a recent analysis found that those SMEs who had a stronger digital presence have been better able to ensure continuity of their activities and protect jobs. Moreover, in addition to teleworking arrangements, about 8 percent of businesses appear to have seized the opportunity of the pandemic to increase the utilization or integrate digital solutions in their work processes. While still nascent, the digital sector has been



rapidly expanding over the last few years. While currently generating a revenue estimated at US\$ 115 million (about 0.8 percent of GDP) with a labor force of about 15,000 people, the BPO sector is expected to employ up to 100,000 people in 2030.

#### Relationship to CPF

**4. The Madagascar Economic Diversification (PIC 3) Project’s integrated, multi-sectoral approach to job creation and inclusive growth is fully aligned with the objectives of the World Bank 2017-2021 Country Partnership Framework (CPF)<sup>ii</sup> and with the government plan “Plan Emergence Madagascar” (PEM)<sup>iii</sup>.** Overall, the CPF seeks to increase the resilience of the most vulnerable people and to promote inclusive growth, while strengthening national and local institutions to reduce fragility. The project specifically supports the two Focus Areas of the CPF, namely: i) increase resilience and reduce fragility; and ii) promote inclusive growth. It aligns with the CPF objective of unlocking productivity in labor-intensive sectors by improving the investment climate and building resilient infrastructure. The project also supports the Government of Madagascar’s Plan Emergence Madagascar (PEM), with a strong alignment on its accelerated inclusive and sustainable growth goals, and more specifically the ‘commitments’ (“velirano”) on industrialization, which include a priority on entrepreneurship and the digital sector, and on tourism, as well as objectives on governance, infrastructure development at the local level, and agribusiness development.

#### C. Proposed Development Objective(s)

The Development Objective is to increase private investment and the growth of Small and Medium Enterprises in targeted regions in Madagascar.

#### Key Results (From PCN)

The proposed PDO-level results expected from the project are: (i) Value of private investment enabled by the project; (ii) Increased growth of MSMEs in Target Areas.

#### D. Concept Description

**The project will deepen investments and activities in agribusiness and tourism already started under a previous project (Poles Integres de Croissance - PIC 2.2), while adding a new sector, digital, and expanding the geographic focus to additional region/zone(s).** The project is an Investment Project Financing of a proposed amount of US\$100 million, structured around four mutually reinforcing components that support: (1) the removal of key binding constraints to investments and business operation at the national level; (2) the removal of key binding constraints to investments and business operation at the regional level in key sectors; (3) support to entrepreneurship and SME growth; and (4) project management. As a cross-sectoral strategic project, it will coordinate closely with the same relevant line ministries including the Ministry of Transport, Tourism and Meteorology, the Ministry of Agriculture, and the Ministry of Industry, Trade and Crafts, under the stewardship of the Ministry of Economy and Finance.



Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

**Note to Task Teams:** This summary section is downloaded from the PCN data sheet and is editable. It should match the text provided by E&S specialist. If it is revised after the initial download the task team must manually update the summary in this section. *Please delete this note when finalizing the document.*

**Note:** To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document. *Please delete this note when finalizing the document.*

## CONTACT POINT

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### Borrower/Client/Recipient

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### Implementing Agencies

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**APPROVAL**

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**Approved By**

Country Director:	Idah Z. Pswarayi-Riddihough	03-Dec-2020
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<sup>i</sup> MEF/INSTAT, IMPACT DE LA COVID-19 SUR LES ACTIVITÉS DES ENTREPRISES, August 2020, forthcoming

<sup>ii</sup> World Bank (May 2017). Country Partnership Framework for the Republic of Madagascar for the Period of FY17-FY21. Report number 114744.

<sup>iii</sup> The Covid-19 response plan has yet to be adopted.