

**PROJECT INFORMATION DOCUMENT (PID)
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC53926

Project Name	Capacity Building Project for Extractive Industries Policy Implementation
Region	AFRICA
Country	Madagascar
Sector(s)	Public administration- Energy and mining (20%), Oil and gas (40%), Other Mining and Extractive Industries (40%)
Theme(s)	Tax policy and administration (25%), Other public sector governance (25%), Law reform (25%), State-owned enterprise restructuring and privatization (10%), Other environment and natural resources management (15%)
Lending Instrument	Lending Instrument
Project ID	P158889
Borrower Name	Republic of Madagascar
Implementing Agency	Ministry of Strategic Resources
Environment Category	C - Not Required
Date PID Prepared	17-Mar-2016
Estimated Date of Approval	27-May-2016
Initiation Note Review Decision	The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Political Context

After 5 years of political stalemate and a mediation process led by the Southern African Development Community (SADC), presidential and legislative elections took place in Madagascar at the end of 2013. The new Government of Madagascar has made the “fight against poverty through inclusive growth” its main objective and has developed a strategy centered on three pillars: improving governance, promoting economic recovery, and expanding access to basic social services. This strategy has been outlined in the Programme Général de l’Etat (PGE) and translated into a 2015-2019 National Development Program (Programme national de développement or PND) with an implementation plan.

Economic Overview

The latest economic update published by the World Bank office reveals a slow economic recovery that is reflected in the decline of new business creation, job creation, and consumption of petroleum products. Catastrophic meteorological conditions have also taken a toll on the economy, resulting in higher inflation and a reduction of household purchasing power.

The ariary, Madagascar's local currency, depreciated strongly in March against the US dollar, after being stable since mid-December 2014. Madagascar's trade deficit narrowed and the import value decreased by 17% in the first quarter of 2015 compared to the same period in 2014, due to the decline in international energy prices and a reduction in rice imports. The export value increased by 12%, thanks to the volume of nickel and cobalt exports which offset lower prices and more favorable prices and production of cloves and vanilla. The performance of these products more than compensated for the decline in export values of shrimps, tuna and textile, the mainstay of the free economic zone (Zone franche).

The country continues to rank poorly on the ease of doing business index: 163rd out of 189 countries in World Bank Doing Business 2015 report. The Government has set a goal to improve its performance and has identified a series of improvements to be adopted over the next 18 months.

GDP growth is estimated at 3.4% in 2015 (3.3% in 2014), mainly driven by the extractive industry and the tertiary sector. Inflation was contained at 6% despite the gradual removal of subsidies on petroleum products.

Social Context

Madagascar ranked 155th out of 187 countries in the United Nations 2014 Human Development Report and the country will not reach the United Nations Millennium Development Goals (MDG) by 2015. In particular, the MDGs for child mortality, primary education net enrollment and completion rates, and especially the eradication of extreme poverty, which in 2007 was deemed potentially achievable, can no longer be achieved.

Madagascar is also highly vulnerable to natural disasters—including cyclones, droughts and flooding. It is estimated that one quarter of the population, or approximately five million people, currently live in zones at high risk of natural disasters.

Sectoral and Institutional Context

Mining. Mining has become an important pillar of the economy of Madagascar. While the country has a long history of Artisanal and Small-scale Mining (ASM) of gold and precious stones, the sector has entered a new era with the launch of two large-scale mining projects. These include Ambatovy which has been producing nickel and cobalt since 2012; it is the largest private investment ever witnessed on the island, having invested a total of US\$ 7.2 billion as of 2013. The second project, QMM has been producing ilmenite (titanium ore) since 2009 and indicates having invested US\$ 930 million in Madagascar in 2008. Taking into consideration those world-class projects, plus the historical ones (like the state-owned chromite operation run by Kraoma), as well as potential new ones (new ilmenite, coal and iron-ore mines are generally considered in forecasting models), the magnitude of the mining sector in Madagascar is now translating very significantly both at the national and local levels. The FY16 SCD explains the tertiary sector led growth between 1994 and 2008, and the mining sector took over since 2010. As said in the text: "One of the potential sources of future revenue is the mining sector, which is not yet a large contributor to the Treasury. Managing the potential exponential growth of the extractive sector is a challenge for the country, and also an immense opportunity."

Petroleum. Although Madagascar is not a significant petroleum producer, its hydrocarbon potential has been the object of renewed interest. Onshore Madagascar Oil was awarded a development license in early 2015, and has started pilot production of the Tsimiroro field through the application of various thermal techniques. Tsimiroro contains an estimated 1.7 billion barrels of contingent resource. The company has had a long presence in Madagascar, focusing on potential high gravity oil or large volume gas opportunities, and is in partnership with Total for the exploration of the Bemolanga field. Offshore, despite the low level of the oil price, recent discoveries in the region have contributed to maintaining investors' interest in Madagascar's largely unexplored territorial waters. OMNIS, a parastatal currently in charge of upstream petroleum has plans to organize a bidding round to grant additional blocks for exploration.

Reform. Since end of 2014, the Ministry of Mines and Petroleum (MMP) has been working on modernizing the Mining and Petroleum Codes. The government's vision is to ensure the sustainable exploitation of the island's natural resources for the betterment of future generations. This reflects the objectives of the General Policy for the State and the National Development Plan. The draft Codes have been the object of extensive consultation with industry, civil society, and donors, which have contributed to highlight areas for improved cooperation and knowledge exchange. The World Bank provided legal and fiscal international expertise under the Extractive Industry Technical Assistance Facility (EI-TAF). As of January 2016, it is expected that the two draft codes will be submitted to Parliament in May 2016.

Relationship to CAS/CPS/CPF

The FY12-FY13 ISN clearly establishes the importance of the sector for the country development and specifically mentions a much more transparent management system of the mining/oil permits needs to be put in place together with the strengthening of sectoral institutions and the revamping of EITI initiative.

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In parallel, significant analytical work was carried out, including the Mining Sector Policy Note published in June 2014 and the Mining Benefits Research Report published in June 2015. They provide a strong basis for the proposed advisory activity now focused on providing expertise to the government in the process of improving the regulatory and fiscal frameworks for both mining and petroleum.

II. Project Development Objective(s)

Proposed Development Objective(s)

The Project Development Objective is to improve capacity to develop legal, regulatory, fiscal and institutional frameworks for an effective and transparent management of extractive industries.

Key Results

The key results of the technical assistance will be advice and studies contributing to the update of the following :

- Transparent and effective licensing procedures available for adoption (mining and oil)
- Regulations and related documents for improved enforcement available for adoption and dissemination (mining)
- Action Plan on State Participation (mining) and Statutes of the National Oil Company (oil) completed
- Contribution towards EITI compliance achieved

III. Preliminary Description

Concept Description

Concept. Since the end of the Transition, the Government has embarked into a significant reform of extractive industries with the aim of both boosting investments and increasing long term benefits. With the Bank-Executed Extractive Industries Technical Assistance (EI-TA) Project (P153564), the World Bank provided assistance during the early stages of the reform. A range of background analysis of legal and fiscal frameworks as well as detailed financing models for both mining and petroleum were delivered to the Government to inform the reform process. As a result, Government decided to take more time to consider the international experience, liaise with local stakeholders and requested further capacity building sessions. At this point in time, both the revised Mining Code and Petroleum Code are much more comprehensive and mature texts expected to be submitted to Parliament in May/June 2016.

This project is designed as a follow up in two parts contributing to the same objective: one Bank-Executed (BE) part which as a continuation of the EI-TA will provide advice in the form of technical notes and on-the-job training for the government team to inform policy decision making, and one Recipient Executed part (RE) which will provide direct support to the Ministry of Mining and Petroleum to build capacity and provide critical pieces to make the reform enforceable. The present Initiation Note concerns the RE part, whereas, the attached Supplemental Task Description describes the BE part.

Direct beneficiaries are: Ministry of Mines and Petroleum (MPMP) with related institutions (e.g. OMNIS, BCMM), Ministry of Finances and the EITI Multi-Stakeholder Group (MSG). Indirectly, the project will also benefit companies and civil society by strengthening the frameworks for improved management of extractives.

Design. The general structure of this project has been discussed with Government in the course of the previous assistance and organized as follows:

Component A. Legal and Technical Advisory Support for Licensing

Sub-Component A.1. Mining: Advisory Support to the Mining Cadastre.

This activity is expected to include support i) a “clean up” of pending mining titles; ii) improve access to mining titles and geological information (e.g. BCMM and BPRGM websites); and iii) the establishment of transparent procedures for tenders of free-of-rights mining prospects.

Sub-Component A.2. Oil: Advisory Support to Draft Standard Tender Packages and Organize a Bidding Round. This activity is expected to include support i) the drafting of standard tender package and procedures (manual), ii) the organization of a bidding round, including the set-up of a

data room and a road show; iii) assistance to the evaluation committee.

Component B. Capacity Building for Sector Management and State Participation

Sub-Component B.1. Mining: Improve Enforcement of Mining Laws and Regulations. This activity is expected to include i) the drafting of regulations, procedures (arretes) and implementation documentation for a sound application of the Mining Code and the Large Scale Mining Law (LGIM); ii) the production of communication materials about sector's management for key stakeholders like artisanal miners and local government personal.

Sub-Component B.2. Mining: Advisory Support on State Participation. As Government is considering to expand the role of the State in the sector and create a State-Owned Company for all minerals on the basis of the existing (Kraoma) which focuses on chromite, this activity is expected to finance a study on management of state participation in mining ventures.

Sub-Component B.3. Oil: Advisory Support on State Participation. This activity will finance the drafting of Statutes for the National Oil Company with the associated background research.

Component C. Support Extractive Sector Transparency and Stakeholder Engagement

This component will support the Extractive Industry Transparency Initiative (EITI) with a program of dissemination and outreach activities in line with the EITI work plan as well as consultation events to improve dialog around the management of extractive industries. This could include awareness raising (university debates, radio shows etc.) and capacity building at the central and/or local levels.

Component D. Project Management

This component will finance the incremental costs associated with the implementation of the proposed activities. This will include: (i) a full-time technical focal point in the Project Implementation Unit (PIU); ii) training and contribution to the PIU operational costs; and (iii) the consulting services needed to perform the grant audit.

The detailed fund allocation will be determined during appraisal.

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
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	

V. Financing (in USD Million)

Total Project Cost:	1.4	Total Bank Financing:	0
Financing Gap:	0		
Financing Source			Amount
Africa Extractive Industries Trust Fund			1.4

VI. Contact point**World Bank**

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