Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 09-Jan-2018 | Report No: PIDISDSA23246

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Madagascar	P161491	Madagascar Financial Inclusion Project	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA	29-Nov-2017	27-Feb-2018	Finance & Markets
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Ministere des Finances et du Budget	Banque Centrale de Madagascar	

Proposed Development Objective(s)

The development objective of this project is to promote the financial inclusion of individuals and MSMEs in Madagascar.

Components

Increasing usage of transaction accounts
Increasing access to credit for MSMEs
Project Implementation Unit and Impact Evaluation
Contingent Emergency Response

Financing (in USD Million)

Financing Source	Amount
International Development Association (IDA)	45.00
Total Project Cost	**45.00**

Environmental Assessment Category

F - Financial Intermediary Assessment

Decision

The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **While Madagascar is an island nation blessed with many assets, repeated political crisis have held the country back.** With a population of near 24 million of which 64 percent is less than 25 years of age, Madagascar has the potential to reap a demographic dividend. Agricultural lands, forest areas, and access to the sea could make it the "food basket" of the Indian Ocean, if not beyond. An unparalleled biodiversity and cultural wealth could drive tourism expansion. The workforce is relatively literate and its small - but reasonably diversified - private sector could thrive. However, repeated political crises have held Madagascar back. Over the last fifty years, all heads of state (excluding the current President) have either gained or lost power as the result of an unconstitutional event. The application of existing institutions and legal norms has been repeatedly undermined by the political networks of a few. The Malagasy population have borne the cost of this political instability.

2. **Madagascar has one of the highest rates of poverty in the world.** The average Malagasy is 42 percent poorer today than in 1960, the year of Madagascar's independence. As of the latest data available (2012), only 30 percent of Malagasy live above the national and only 10 percent above the international poverty line. Poverty is not only widespread, it also runs deep: the average Malagasy consumes 32 percent less than a person living directly at the national poverty line. The most recent poverty analyses[1] show that Madagascar made little progress in improving the welfare of the poor between 2001 and 2012. The incidence of extreme poverty is higher among female-headed households, which make up one-fifth of all households. Close to 80 percent of Madagascar's population lives in rural areas, and rural poverty rates are more than twice as high as urban rates. Because most of the rural poor depend on agriculture for their livelihood, they are particularly vulnerable to the frequent and severe climatic shocks that burden the country.

3. **Since the return to constitutional order in early 2014, Madagascar is progressively putting itself back on a positive macroeconomic development track.** The elected government that took office in 2014, after a five-year long political crisis, has made tangible progress stabilizing the economy and restarting growth. This has been supported by two consecutive IMF Rapid Credit Facility (RCF) programs, followed by a six-month IMF staff-monitored program and an ongoing three-year Extended Credit Facility (ECF) program that started in 2016. Madagascar's macroeconomic reform agenda was further supported by the World Bank's Reengagement DPO in 2014, the Resilience DPO in 2015 and the on-going 2016-17 Public Finance Sustainability & Investment programmatic DPO series. These efforts have contributed to a gradual macroeconomic recovery in Madagascar, with real GDP growth expected to reach 4.1 percent in 2017. Inflation is projected at 8.0 percent in 2017.

4. **A key challenge for Madagascar is to ensure that economic growth becomes more inclusive and benefits the many poor that have so far been left behind.** Mining and the tertiary sector, including public works, are the main drivers of Madagascar's recent macroeconomic growth. Export processing zones are also growth sectors. Yet, the main sector of employment for the bottom 80 percent of households is agriculture. Madagascar's urban poor remain locked in often unproductive micro enterprises, without access to better

[1] World Bank (2016). "Recent Trends and Analytical Findings on the Causes of Madagascar's Persistent Poverty." It uses household survey data from EPM 2001, 2005, 2010, and ENSOMD 2012. Also see World Bank (2014). "Face of Poverty in Madagascar: Poverty, Gender, and Inequality Assessment." The next household survey is expected to take place in 2018, following the census.

employment opportunities.[2] Economic growth has therefore largely bypassed the poor. Recognizing this challenge, the country is embarking on an ambitious reform program to promote the inclusiveness and resilience of economic growth. The Madagascar National Development Plan (NDP) 2015-19 has set out the national goal of "*development through inclusive and sustainable growth, taking into account the spatial dimension"*. Supporting this goal, the World Bank Country Partnership Framework (CPF) has designed its 2017-21 program around two focus areas: (i) increase resilience and reduce fragility and (ii) promote inclusive growth. The World Bank has put in place lending projects to support this strategic focus, including a new DPO series on Inclusive and Resilient Growth and this Financial Inclusion Investment Project Financing (IPF).

Sectoral and Institutional Context

1. **The World Bank 2017-21 CPF has identified access to finance as one of its key objectives to promote inclusive growth in Madagascar.** A 2016 FinScope survey found that 41% of households were fully financially excluded. Only 12% of Malagasy households had access to banking services, 17% had access to other non-bank institutions and 29% only had access to informal mechanisms to manage their finances. Lack of access to basic formal financial services, starting from transaction accounts and credit for micro, small and medium-sized enterprises (MSMEs), has severe repercussions on the life of the Malagasy.

2. **Traditional banks have the potential to play a larger role in promoting financial inclusion in Madagascar – particularly if they are given incentives to overcome their risk aversion and lend to MSMEs.** Madagascar's banking sector exhibits strong financial fundamentals. The sector has capital ratios of 12.8 percent on aggregate (June 2017) - well above the required minimum of 8 percent. Liquidity is ample, with banks' deposits exceeding loans. As of end-2016, the 11 banks present in Madagascar had outstanding deposits of 20.1% of GDP and outstanding loans of 12.2% of GDP (IMF Financial Access Survey 2017). This remains well below regional comparators. To promote financial inclusion, the sector needs support to overcome risk aversion and utilize its high liquidity ratios to lend to MSMEs – learning to identify and lend to promising borrowers, even if they lack conventional credit history and collateral.

3. **Madagascar's Microfinance Institutions (MFIs), specializing in providing financial services to low income and poorly documented customers, can play a key role in bringing credit to the poor – though the sector needs to overcome governance challenges and strengthen its capabilities.** MFIs have developed alternative business models to offer account, credit and other financial services to poorly documented and low-income customers (including in-depth face-to-face client screening interviews, group lending schemes, micro and short-maturity credit, increased focus on financial education to generate customer demand). The reach of this subsector has become important. According to the IMF FAS 2017, there are now 55.6 MFI depositors and 16.8 borrowers per 1,000 adults. Given a business model focused on small loans to the poor, outstanding loans remain small at 0.8% of GDP. But there are now 4.6 MFI branches per 100,000 Malagasy – a wider network than Malagasy banks. While most MFIs have until recently focused on reaching the urban small and medium-sized enterprises (SMEs), efforts are now under way to reach micro enterprises as well as more remote rural locations. The MFIs however face several challenges. First, the rapid growth of the sector has come along with a deterioration of credit portfolio quality at some MFIs. A consolidation of the sector is expected. Second, many MFIs face liquidity constraints and are thus limited in their ability to take risks and expand their branch network into rural areas. Third, to improve financial management, many MFIs need to

[2] In 2012, over 87 percent of employed workers worked in enterprises with five or fewer workers (World Bank, 2016. Shifting Fortunes and enduring poverty in Madagascar).

upgrade their IT systems. Fourth, many MFIs are exploring the use of digital technology to offer mobile financial services to their customers, which would broaden their appeal and reach – though MFIs so far lack experience in this domain.

4. **The rapid growth of mobile money accounts offers an opportunity to broaden access to transaction accounts to those that cannot be reached by traditional banks – though the Malagasy need to become more comfortable with digital finance.** Madagascar's three mobile operators offer e-money services, which enable cash-in and cash-out functions through their agent network, transfers across e-money accounts, bill payments for partnering services, remittances and other services. Since mobile phone coverage and the agent network are already vast, while technology significantly reduces costs per customer[3], this business model holds great promise for financial inclusion in Madagascar – especially as mobile phone ownership (and sharing) increases. In line with this, the demand for e-money has increased rapidly. According to the IMF FAS 2017, there are now 54.2 active mobile money accounts (and 277.3 registered mobile money accounts) per 1,000 adults – a rise of 86.9% relative to 2014. There are 72.3 mobile money agent outlets per 100,000 adults. Mobile money account balances stand at 0.35% of GDP.

5. **The recently closed World Bank Madagascar Financial Services Project (PASEF) has already put in place key measures to encourage lending to MSMEs in Madagascar – though further support is needed to build on this successful initiative.** Among others, the project established a partial portfolio credit guarantee (PPCG) for credits extended by banks and MFIs to MSMEs in July 2014 with an initial capital of 4 million US dollars. The PPCG is managed by the local fund manager SOLIDIS. Over the course of the PASEF, it was highly effective in expanding financial inclusion: With a capital of 4 million US dollars, the guarantee supported cumulatively 46 million US dollars in credit. Six banks and two MFIs participate in the MSME window of the PPCG. The guarantee covers 50% of credits meeting eligibility criteria. It is a portfolio guarantee: participating institutions must enter in the guarantee all credits meeting the eligibility criteria. The Fund must accept all the credits meeting the eligibility criteria without analyzing them. The registration of a credit on the guarantee is thus very quick. The PPCG Fund has thirty days to make payments on legitimate claims. The PPCG is silent: borrowers do not know that the credits they receive benefits are covered by the PPCG. The guarantee is aimed at borrowers who could not otherwise have access to credit. In fact, 75 percent of the number of credits guaranteed are extended to new borrowers. Participating financial institutions benefit from in house technical assistants paid by the project. Today, for the PPCG to continue growing, a further increase of its capital endowment is needed and requested by financial institutions participating in the scheme.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The development objective of this project is to promote the financial inclusion of individuals and MSMEs in Madagascar.

Key Results

6. **To assess progress towards achievement of the PDO, the project will focus on two key indicators.** First, to evaluate the increase in usage of transaction accounts, the project will monitor the number of currently

[3] According to the McKinsey Global Institute (2016) flagship report on Digital Finance, digital financial services can be provided at between 80% to 90% lower cost than conventional services.

unbanked (i) teachers/students that receive their government salary/scholarship payments through a transaction account and (ii) businesses that pay the "impot synthetique" to the central government through an e-money account; baseline (2016): 0; target (2021): 130 thousand people or more. Second, to assess progress on increasing access to MSMEs, the project will monitor the cumulative number of MSME borrowers that banks and MFIs have registered under the partial portfolio credit guarantee since effectiveness of the project; baseline (2017): 0; target (2021): 5 thousand or more.

D. Project Description

7. **This project proposes to finance activities to support financial inclusion in Madagascar over four years for US$45 million.** Under component 1, the project supports activities to increase adoption and usage of transaction accounts. Under component 2, the project supports banks and MFIs to supply credit to MSMEs, while encouraging credit demand by productive businesses – directly enabling the growth of participating enterprises and the creation of jobs. Component 3 funds project management and component 4 opens the possibility for emergency funding allocations.

8. **Component 1 supports the usage of transaction accounts, digital finance and cashless transactions.** Subcomponents 1.1 and 1.2 support the move from cash to e-money transactions for (i) selected payments to and from the government and (ii) selected payments to and from MFIs. Particularly in rural areas, this will allow households and enterprises to benefit from significantly lower transaction costs by eliminating or reducing travel time and expenses, while making payments safer. The Government and the participating MFIs will benefit from lower cash handling costs, while reducing the scope for fraud as well as increasing the reach and effectiveness of their services. Supported by a financial education campaign and improvements to the national payments infrastructure, these measures aim to contribute to the wider socialization of digital finance and the adoption of e-money transaction accounts in Madagascar – including as a store of value and as stepping stone for the poor to more advanced financial services.

9. **Component 2 supports access to credit for MSMEs.** Subcomponent 2.1 encourages credit supply by banks and MFIs, offering (i) credit guarantees and (ii) Fintech solutions to manage the credit risk associated with lending to the many Malagasy MSMEs that have limited conventional credit information and collateral. Subcomponent 2.2 aims to strengthen credit demand, by (i) offering business development services (BDS) to MSMEs to make them more bankable and (ii) encouraging MFIs to establish a physical presence and reach out to the underserved rural areas of Madagascar. Supported by a collateral registry and measures to strengthen consumer protection, these measures will directly benefit those MSMEs that receive credit facilitated through the project interventions, allowing them to scale-up and create new employment opportunities. A specific focus will be on products and services that meet the needs of women-owned MSMEs, such as loans with reduced collateral requirements, and business development services that address female-specific constraints to accessing finance. Beyond these direct beneficiaries however, as banks and MFIs learn-by-doing and become more confident in managing the risk of lending to smaller, less established and more remote enterprises, the project also aims to contribute to structural changes in the business models of Malagasy lenders and to encourage a culture of lending to MSMEs that lasts beyond the specific project interventions itself.

10. **Further detail on the scale-up of the credit guarantee fund for MSMEs funded through subcomponent 2.1:** Strengthening access to finance for MSMEs requires encouraging commercial lenders to supply credit to

traditionally underserved market segments, including MSMEs that may lack standard collateral or credit information. In the case of Madagascar, since many lenders have high liquidity ratios, a risk-sharing facility, such as a partial portfolio credit guarantee (PPCG), is a particularly cost-effective and suitable instrument to mobilize credit – as has been demonstrated by the previous PASEF project of the World Bank. To safely further grow the volume of loans guaranteed, the PPCG needs to increase its capital. The new project will therefore continue support for this existing successful initiative, increasing the endowment of the PPCG from US$ 4 million to US$ 12 million. Funded interventions: (i) a capital increase of the PPCG; (ii) TA to support the seamless integration of the PPCG into the business processes of participating financial institutions.

11. **Component 3 supports project management through the establishment of a project implementation unit (PIU) and through an impact evaluation of project interventions.** Component 4 allows for a contingent emergency response, if needed. This component will not receive an ex-ante funding allocation.

E. Implementation

Institutional and Implementation Arrangements

12. **The Ministry of Finance and Budget (MFB) will be the signatory of the IDA Credit.** The main government entities with overall responsibility for project implementation will be the MFB and the Central Bank of Madagascar (BCM).

13. **A Project Implementation Unit (PIU) will be established as a dedicated unit in the MFB.** The PIU will have full fiduciary responsibility for project implementation. The PIU's responsibilities will include procurement of hardware, software, business development services, capacity building related equipment and other consultancies as needed, as well as overall coordination between the component activities. It will ensure monitoring and evaluation (M&E) activities and ensure financial reporting obligations associated with the project. PIU staff should include at all times during project implementation, at a minimum, a Project Coordinator, a financial management (FM) specialist, an accounting specialist, a procurement specialist, an M&E specialist and a full-time environment focal point. The PIU will extend to hire other specialists and support staff, as needed to perform its functions. The Project Coordinator will be responsible for management of the PIU and overall project coordination. The Procurement Specialist and FM Specialist will provide regular support on all project procurements and financial management processes.

14. **A Project Steering Committee (PSC), chaired jointly by the Minister of Finance and the Governor of the Central Bank, will meet at least bi-annually to provide policy guidance and oversight for the project.** It will comprise representatives from all the relevant project stakeholders involved in the project's implementation. This includes the MFB (including the CNFI), the BCM (including the CSBF), the Ministry of Justice (MoJ), the Ministry of Private Sector Development, the Association of Banks (APB) and the Association of Microfinance Institutions (APIMF). The Committee will be in charge of: (i) approving annual work programs and budgets; (ii) reviewing project reports including progress reports, audits, the mid-term review and implementation completion reports; and (iii) addressing any major problems affecting project implementation. If needed, participants of the PSC can delegate their responsibilities for specific PSC meetings to relevant staff.

15. **A Project Implementation Committee (PIC), consisting of director-level staff of the main implementing organizations, will meet every second month to coordinate the implementation of the project.** The project

will need to ensure that planning, implementation, and monitoring are adequately coordinated across key stakeholders. The project will address this through the establishment of a Project Implementation Committee that will meet every second month and ensure a smooth implementation and coordination on the basis of a common action framework. The committee will include representatives from each relevant stakeholder and implementing agency[4].

16. **Working groups will coordinate the progress on subcomponents of the project.** The CNFI, Ministry of Finance and the Central Bank are expected to establish a working group to coordinate the financial education activities. The Ministry of Finance, the Central Bank and the APIMF are expected to establish a working group to prepare and follow-up on an action plan for a mutualized MIS for MFIs. Other working groups can be proposed and established by project stakeholders, as needed.

F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

This is a national level project.

G. Environmental and Social Safeguards Specialists on the Team

Paul-Jean Feno, Environmental Safeguards Specialist
Peter F. B. A. Lafere, Social Safeguards Specialist
Andrianjaka Rado Razafimandimby, Social Safeguards Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	OP 4.01 is triggered owing to the activities of sub-borrowers who will benefit from credit guarantees under the Partial Portfolio Credit Guarantee (PPCG) Program (Component 2.1 of the project). However, the sub-borrowers who benefit from the guarantees under the program are not identified in advance. The PPCG is an existing program under the previous PASEF project and will be expanded under the

[4] The Project Implementation Committee (PIC) will include the PIU Coordinator, representatives from the World Bank Project Team as well as one representative for each of the main government counterparts that will support the project's implementation. The World Bank will be the Secretariat of the PIC.

		current project. Based on PASEF data and consultation done with the Participating Financial Institutions during project preparation, sub-borrowers are MSME's who are engaged in a variety of sectors including trade, services, transport, constructions, and agriculture. The activities/subprojects covered under the PPCG varies from "micro" to "medium" their size and the environmental impacts will be limited, moderate to low and may be mitigated with generic mitigation measures. Under PASEF, 3 Category B projects were covered, and the rest were Category C. During the project preparation, the existing Environmental and Social Management Framework (ESMF) has been updated for the Project. The ESMF includes an exclusion list for Category A projects and an environmental and social screening mechanism for the other activities selected for the Partial portfolio credit guarantee (PPCG). The updated ESMF has been reviewed and submitted at the World Bank's Regional Safeguards Advisor (RSA). The cleared ESMF was disclosed in the country on December 21, 2017 and to Infoshop on December 22, 2017.
Natural Habitats OP/BP 4.04	No	This policy is not expected to be triggered. All activities/subprojects that could affect natural habitat will be ineligible for the PPCG coverage using an exclusion list.
Forests OP/BP 4.36	No	This policy is not expected to be triggered. All activities/subprojects that could trigger Forests OP 4.36 will be ineligible for the Partial portfolio credit guarantee (PPCG) mechanism. The ESMF includes an exclusion list for activities involving forest
Pest Management OP 4.09	No	All activities/subprojects that could trigger OP 4.09 will be ineligible for the Partial portfolio credit guarantee (PPCG) mechanism. It is reflected in the ESMF that the project will exclude sub-projects intended to finance the purchase of hazardous pesticides, and subprojects that may to lead to substantially increased pesticide use.
Physical Cultural Resources OP/BP 4.11	No	This policy is not expected to be triggered.
Indigenous Peoples OP/BP 4.10	No	This policy is not expected to be triggered.
Involuntary Resettlement OP/BP 4.12	No	This policy is not expected to be triggered. The financing activities are focused on existing MSMEs. All activities/subprojects could trigger OP 4.12 will

		be ineligible for the Partial portfolio credit guarantee (PPCG) mechanism. This restriction will be part of the exclusion list in the ESMF and Operations Manual, including a rigorous screening process for potential credit guarantee coverage.
Safety of Dams OP/BP 4.37	No	This policy is not expected to be triggered. The ESMF includes an exclusion list for activities involving dams.
Projects on International Waterways OP/BP 7.50	No	This policy is not expected to be triggered by any of the Project activities. Madagascar is an Island
Projects in Disputed Areas OP/BP 7.60	No	This policy is not expected to be triggered. No disputed area as defined under OP 7.60.

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

The potential negative environmental and social negative impacts and risks of the proposed project are associated with the implementation of Component 2.1, which is designed to support a Partial portfolio credit guarantee (PPCG) to enhance MSME Finance. The negative impacts are expected to be moderate to low, mostly site-specific and easily manageable to an acceptable level.

The Partial Portfolio Credit Guarantee (PPCG) for loans extended by banks and MFIs to micro, small and medium-sized enterprises (MSMEs) was established in July 2014. Based on PASEF data and consultation done with the Participating Financial Institutions during project preparation, there are currently 8 PFIs on the MSME window: 6 commercial banks and 2 micro finance institutions. The size of MSME portfolio covered by the GPP for each institution ranges from USD 88 000 to USD 8.8 million. A total of 1831 sub-borrowers benefited from the program under PASEF. With the increased capital, the number of sub-beneficiaries should increase to about 5000. The main activities of sub-borrowers are in varied sectors including: (i) Trade/commerce (groceries, small street restaurants, collection of local products, ...); (ii) Services (estate agency, consultant office, Advisory Office, ...); (iii) Transportation: (buying public transportation vehicles and buses ..etc.); (iv) Tourism and restaurant(equipment and furniture purchases, financing of trainings, ..etc.); (v) Construction (building rehabilitation; purchases of equipment for civil works; purchases trucks …); (vi) Industry: (Grinder machines, Sheller machines, ...) (vii) Agriculture and livestock : fish farming, chicken farming, plow and cart buying, …etc.). During the current PASEF. It was noted the sectorial repartition following: commerce (49%); services (19%); transport (11%); construction (6%); industry (5%); agriculture (3%).

The default rate stood at 1.7%. Around 77% of registered credit had maturity below 2 years, around 50% of credit went to commerce and around 44% were investment loans. 75% of borrowers registered under the guarantee were new borrowers who could not have received a credit without the guarantee.

The PPCG is managed by a private Malagasy guarantee fund manager SOLIDIS, ensuring that it can quickly respond to claims by PFIs and that sustainable arrangements are in place that allow the Fund to continue operating without

World Bank support. SOLIDIS is licensed, regulated and supervised by the financial sector supervisor. The guarantee is flexible and adapted to the needs of PFIs. The PFIs determine with the Fund manager the maximum volume of loans they can enter in the guarantee. The guaranteed loans are made with private funds by private banks and MFIs.

The PPCG automatically guarantees 50% of credit losses for all qualifying loans extended by the PFIs. Each PFI agrees with SOLIDIS on the characteristics of qualifying loans (size of loan, size and sector of sub-borrower, etc.). Because the guarantee is partial, the PFI keeps an interest in screening loan applications and selecting viable sub-borrowers. Because the guarantee is applied to the entire portfolio of qualifying loans, the PFIs cannot limit the guarantee to their selection of most risky loans. Because the guarantee is applied to credit extended from PFIs to borrowers, borrowers are not aware that their loan is partially guaranteed by a quasi-public Fund (the PPCG is “silent”). This avoids moral hazard and high delinquency rates when loans are known to be insured by public funds. If a loan registered in the guarantee defaults, the PFI submits a claim to SOLIDIS. SOLIDIS then has thirty days to review the claim on behalf of the Fund and pay the claim. The PFI is in charge of the recovery and the proceeds are shared equally with the Fund. The quick payment is an important benefit for PFIs who receive cash immediately without having to wait for a lengthy settlement. PFIs were chosen through calls for expression of interest and the 8 selected have met the required criteria and signed a convention with SOLIDIS.

Under PASEF, guarantees were provided mainly in respect of sub-projects rated Category C (negligible or no environmental and social impacts), and 3 projects rated Category B (1 fish pond infrastructure; 2 tourist infrastructures). For the sub projects rated category B, the documentations confirmed that they had an environmental permit and an operational Environmental and Social Management Plan approved by the National Office for the Environment (NOE) correctly implemented by the sub-borrowers. The activities/subprojects proposed to the Partial Portfolio Credit Guarantee (PPCG) Fund varies from "micro" to "medium" size. The environmental impacts could be limited, moderate to low or none, and may be mitigated with generic mitigation measures. OP 4.01, environmental assessment is triggered and the proposed project is rated category FI. The sub-borrower environmental and social safeguards are reviewed before their submission to the PPCG mechanism by the PFIs. The project through SOLIDIS and its environmental focal point at the PIU level conduct a social and environmental due diligence on the subprojects presented by the PFIs only in the case of claims under the PPCG mechanism.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
No potential indirect and/or long term environmental and social impacts are expected.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
N/A

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
The proposed project will be implemented by the Ministry of Finance, which has implemented the current PPCG funds since 2014. The ESMF is an update of the framework successfully used for the PPCG under the previous PASEF project. The PFIs environmental and Social responsibilities has been clarified and reinforced. Overall, the procedures put in place under the PASEF project are strong and implemented in compliance with the PASEF ESMF , the project operational manual and the principles in the agreements signed with the PFIs. It includes a mechanism to review and conduct an environmental screening to avoid and mitigate the environmental and social impacts and risks of potential subprojects eligible for financing by the Participating Financial Institutions (PFIs) that have access to the PPCG. The PIU will retain a full time environmental focal point to support the implementation of the ESMF.

The objective of the Partial Portfolio Credit Guarantee (PPCG) is to facilitate access to financial services for Malagasy micro, small and medium-sized enterprises (MSMEs) by means of a partial guarantee granted to these enterprises through Participating Financial Institutions (PFI) - contributing to the development of economic activities, job creations and poverty reduction. The risks and potential adverse environmental and social impacts generated by the financed activities at FPIs level should be properly mitigated and managed by the selected sub-borrowers. The use of the partial portfolio credit guarantee (PPCG) in respect of a sub-borrower's credit by Participating Financial Institutions (PFIs), occurs when there is a non-payment claim against the sub-borrower. At that point, the sub-borrower's activities may be already underway. Therefore, the ESMF outlines a process for screening and assessing environmental and social risks and performance of the sub-borrower, including when activities are under implementation.

The sub-borrower activities presented at the PFIs may be of the following situation: (i) the sub projects with moderate environmental risks and site specific adverse environmental and social impacts are classified in its Annex II (like category B under WB safeguard policy) where Environmental Commitment Program equivalent of ESMP is required and Environmental certificate with ESMPs is delivered to the sub-borrowers to implement its project; and (ii) The subprojects with weak or negligible environmental risks and none adverse environmental and social impacts (like category C under WB safeguard policy) are implemented with minimal environmental measures or without Environmental mitigation measures.

The updated ESMF and its annexes contains environmental and social screening tools for the various entities involved in the project implementation: PFIs, Solidis and PIU.
The proposed screening is completed by the PFI credit officers when there are non-payment claims against an MSME sub-borrower (already registered in the PFI's portfolio), and the PFI requests a partial guarantee on the sub-borrower's loan, from SOLIDIS, under the PPCG. The screening has two levels:
(i) First level of screening will be addressed through an Exclusion List of Activities (ELA). This is a list of sub-projects/activities that are ineligible for access by the Participating Financial Institutions (PFI) to the project's partial guarantee. The key steps of due diligence are to identify ELA the ineligible activities include the following: (i) a detailed review of range of activities classified as Category A, according to World Bank OP 4.01; (ii) all activities/subprojects that could trigger World Bank OP 4.12 on Involuntary Resettlement and OP 4.04 on Natural Habitats; and (iii) activities that are prohibited for World Bank Group lending, including IFC's exclusion list. The exclusion list has been adopted to reduce the risks to PPCG fund to high risk activities with important adverse environmental and social..
(ii) Second level of screening are the activities or subprojects presented by PFIs that could be eligible for access to the partial guarantee of the project fund. The key steps and due diligence to confirm eligibility includes the following: (i) activities classified as Category B, according to World Bank OP 4.01, where the proposed subproject/activity presented by the PFIs to be registered under the PPCG has received an environmental license from the Malagasy Environmental Authority (National Environmental Office (NOE), and is being monitored by same, and is being implemented in a manner satisfactory the Environmental and Social Management Plan (ESMP), ii) activities classified as Category C according to World Bank OP 4.01(i.e. negligible or no environmental and social impacts). Due diligence for Category B projects will be supported by the Environmental Focal Point within SOLIDIS.

PFIs have the main responsibilities to ensure that the sub-borrower/credit meets all the eligibility criteria including the environmental and social requirements, using the process outlined in the ESMF, to conduct environmental and social due diligence of individual sub-borrowers and their activities. They need to request necessary information from the sub-borrower and submit completed files to SOLIDIS. For Category B projects, SOLIDIS, with the support of the environmental consultant, will carry out environmental and social due diligence on submitted claims to review the implementation of the sub-project's ESMP. SOLIDIS can reject the payment of a claim if the environmental requirements have not been met. If the credit does not meet the environment requirements, SOLIDIS will not pay the claim, and the PFI will not be reimbursed for the fees paid on the credit.

The ESMF is an update of the framework successfully used for the PPCG under the previous PASEF project. This clarifies and reinforces the PFIs environmental and Social responsibilities, improving the environmental and social screening process at PFIs and SOLIDIS level. The environmental and social due diligence at SOLIDIS has been improved with the hiring of an environmental specialist at PIU level and the conducting of environmental audits. The ESMF principles are reflected in financial agreements as well as operating manuals. Overall, the procedures put in place under the PASEF project are strong and implemented in compliance with the PASEF ESMF, the project operational manual and the principles in the agreements signed with the PFIs.
Under the current PPCG, the Project Coordination Unit, SOLIDIS and a part of existing PFIs have a good experience in implementing bank support to the proposed activities to be financed under the credit of Participating Financial Institutions (PFI) for partial guarantee during the Partial Portfolio Credit Guarantee (PPCG) established by the PASEF Project.
The PFIs conduct environmental and social due diligence during the client portfolio assessment and the review of credit demanded by the borrower on the investments. The credit committee is composed of a credit officer who conducts environmental and social due diligence of the sub-borrower's activities/investments covered by the PFI credit, to confirm compliance with Malagasy environmental Law. Credit officers receive periodically an environmental capacity building training from the National Environmental Office to refresh their understanding on implementation of National Environmental Law.
Based on a review of the current institutional arrangement under PASEF and the expansion of the PPCG program, the project has committed to include in the PIU team a full-time environment focal point to support the PFIs and SOLIDIS.. Ex-post evaluations of the ESMF implementation will consist of: (i) conducting of audits of Solidis and PFIs environmental reports carried out by the PIU environment focal point: twice a year; and (ii) a final audit by an external auditor six months before the closing date of the project.
For the PFIs, completion of environmental and social training on the procedures in the ESMF will be a pre-condition to submission to the PPCG. The PIU (located within the MFB)will be responsible to implement the ESMF and an environmental and social focal point will be a key and integral part of the team. Progress Reports (PR) shall document the progress of ESMF implementation. The ESMF implementation budget for a total amount of around USD 51 240 is included in the project operational cost.
The World Bank safeguard team will continue to assist and train the Project Coordination Unit and SOLIDIS, a Malagasy guarantee firm licensed by the Central Bank of Madagascar, to build up their capacity on the management of environmental and social risks described in the ESMF.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
The updated ESMF has been elaborated in consultation with key existing stakeholders, including local banks, MFIs and the recipients of micro-finance. The Borrower's updated ESMF has been submitted to the Bank's review and Approval at the World Bank's Regional Safeguards Advisor (RSA). The cleared ESMF has been disclosed in the country on December 21, 2017 and to Infoshop on December 22, 2017.

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other

Date of receipt by the Bank	Date of submission for disclosure	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
11-Dec-2017	22-Dec-2017	

"In country" Disclosure

Madagascar
21-Dec-2017

Comments

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

OP/BP/GP 4.01 - Environment Assessment

Does the project require a stand-alone EA (including EMP) report?
Yes
If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?
Yes
Are the cost and the accountabilities for the EMP incorporated in the credit/loan?
Yes

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?
Yes
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?
Yes

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
Yes

Have costs related to safeguard policy measures been included in the project cost?
Yes

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?
Yes

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
Yes

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APPROVAL

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