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Report No: PAD4347

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED CREDIT

IN THE AMOUNT OF SDR 104.5 MILLION
(US$150 MILLION EQUIVALENT)

TO THE

REPUBLIC OF MADAGASCAR

FOR AN

ECONOMIC TRANSFORMATION FOR INCLUSIVE GROWTH PROJECT

May 27, 2021

Finance, Competitiveness and Innovation Global Practice
Eastern and Southern Africa Region

CURRENCY EQUIVALENTS

Exchange Rate Effective April 30, 2021

Currency Unit =	Malagasy Ariary (MGA)
US$1 =	MGA 3,807.49
US$1 =	SDR 0.70

FISCAL YEAR

January 1 - December 31

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ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
BDC	Business Development Center
BDS	Business Development Services
BPO	Business Process Outsourcing
CEM	Country Economic Memorandum
CERC	Contingent Emergency Response Component
COVID-19	Corona Virus Disease 2019
CPF	Country Partnership Framework
CPSD	Country Private Sector Diagnostic
CRDA	Commission de Réforme du Droit des Affaires
CRM	Customer Relationship Management
CS2PC	*Comité Sectoriel Partenarial de Pilotage et de Coordination* (Sectoral Partnership Steering and Coordination Committee)
DA	Designated Account
DB	Doing Business
DE4A	Digital Economy for Africa
DTLA	Decentralized Territorial Local Authorities
E&S	Environmental and Social
EDBM	Economic Development Board of Madagascar
EFA	Economic and Financial Analysis
EHSG	Environmental Health and Safety Guidelines
ERR	Economic Rate of Return
ESA	Environmental and Social Assessment
ESF	Environmental and Social Framework
ESCP	Environmental and Social Commitment Plan
ESMP	Environmental and Social Management Plan
ESO	Entrepreneurship Support Organization
EU	European Union
FM	Financial Management
G2B	Government to Business
GBV	Gender Based Violence
GDP	Gross Domestic Product
GPE	Global Partnership for Education
GPN	Good Practice Note
GoM	Government of Madagascar
GP	Global Practice
GRID	Green, Resilient and Inclusive Development
GRM	Grievance Redress Mechanism
IBRD	International Bank for Reconstruction and Development
IC	Investment Climate
ICRR	Implementation Completion and Results Report
ICRP	Investment Climate Reform Program
IDA	International Development Association
IEE-ACP	Investment-Enabling Environment in Africa, Caribbean and Pacific Countries
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFR	Interim Financial Rerport

IT	Information Technology
ICT	Information and Communication Technology
JET	Jobs and Economic Transformation
KPO	Knowledge Process Outsourcing
M&E	Monitoring and Evaluation
MAEP	*Ministère de l'Agriculture, de l'Elevage et de la Pêche* (Ministry of Agriculture, Livestock and Fisheries)
MBIF	Madagascar Business Investment Facility
MFD	Maximizing Finance for Development
MFI	Microfinance Institutions
MGA	Malagasy Ariary
MICA	*Ministère de l'Industrie, du Commerce et de l'Artisanat* (Ministry of Industry, Commerce and Handicrafts)
MSME	Micro, Small, Medium Enterprises
MTPDN	*Ministère des Postes, des Télécommunications et du Développement Numérique* (Ministry of Post, Telecoms, and Digital Development)
MTTM	*Ministère des Transports, du Tourisme et de la Météorologie* (Ministry of Transport, Tourism, and Meteorology)
NPV	Net Present Value
ONTM	*Office National du Tourisme de Madagascar* (National Tourism Board of Madagascar)
ORT	*Office Régional du Tourisme* (Regional Tourism Board)
PEM	Plan Emergence Madagascar
PIC	*Pôles Intégrés de Croissance Project* (Integrated Growth Poles Project)
PIU	Project Implementation Unit
PIM	Project Implementation Manual
PPD	Public-Private Dialogue
PPP	Public-private partnership
PPSD	Project Procurement Strategy for Development
R&I	Research and Innovation
SCD	Systematic Country Diagnostic
SDR	Special Drawing Rights
SEA/H	Sexual Exploitation and Abuse/Harassment
SME	Small and Medium Enterprise
SOP	Series of Projects
SORT	Systematic Operations Risk-Rating Tool
STEP	Systematic Tracking of Exchanges in Procurement
TA	Technical Assistance
TTL	Task Team Leader
WBG	World Bank Group

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DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Madagascar	Economic Transformation for Inclusive Growth Project	
Project ID	**Financing Instrument**	**Environmental and Social Risk Classification**
P174684	Investment Project Financing	Substantial

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[✓] Contingent Emergency Response Component (CERC)
[✓] Series of Projects (SOP)	[ ] Fragile State(s)
[ ] Performance-Based Conditions (PBCs)	[ ] Small State(s)
[ ] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[ ] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	[ ] Hands-on Enhanced Implementation Support (HEIS)

Expected Approval Date	Expected Closing Date
18-Jun-2021	31-Jan-2027

Bank/IFC Collaboration

No

Proposed Development Objective(s)

The Project Development Objective is to Increase the Growth of Small and Medium Enterprises in Target Regions in Madagascar.

Components

Component Name	Cost (US$, millions)

Component 1: Attracting and Retaining Private Investment and Removing Key Constraints to Support Economic Recovery from the COVID19 crisis	12.00
Component 2: Removing Constraints to Private Investment and Enhancing Local Economic Competitiveness to Support Recovery in Target Regions and Target Sectors	83.00
Component 3: Supporting SMEs and Entrepreneurship Recovery and Growth in Target Sectors and Target Regions	45.00
Component 4: Project Implementation	10.00
Component 5: Contingent Emergency Response Component (CERC)	0.00

Organizations

Borrower:	Ministry of Economy and Finance
Implementing Agency:	PIC National Project Secretariat

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	150.00
Total Financing	150.00
of which IBRD/IDA	150.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	150.00
IDA Credit	150.00

IDA Resources (in US$, Millions)

	Credit Amount	Grant Amount	Guarantee Amount	Total Amount
Madagascar	150.00	0.00	0.00	150.00
National PBA	150.00	0.00	0.00	150.00

Total	150.00	0.00	0.00	150.00

Expected Disbursements (in US$, Millions)

WB Fiscal Year	2021	2022	2023	2024	2025	2026	2027
Annual	0.00	11.50	20.50	28.00	37.00	39.50	13.50
Cumulative	0.00	11.50	32.00	60.00	97.00	136.50	150.00

INSTITUTIONAL DATA

Practice Area (Lead)

Finance, Competitiveness and Innovation

Contributing Practice Areas

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Moderate
7. Environment and Social	Substantial
8. Stakeholders	Moderate
9. Other	Substantial
10. Overall	Substantial

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [✓] No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Relevant
Financial Intermediaries	Not Currently Relevant

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Sections and Description

Schedule 2 Section I.A.1(a) of FA
The Recipient shall not later than one month after the Effective Date establish and thereafter maintain, throughout Project implementation, the Project Steering Committee ("PSC"), with composition and mandate acceptable to the Association.

Sections and Description
Schedule 2 Section I.A. 2(a) of FA
The Recipient shall not later than one month after the Effective Date establish and thereafter maintain, throughout Project implementation, the Technical Committee ("TC"), with composition and mandate acceptable to the Association.

Sections and Description
Schedule 2 Section I.A. 3(a) of FA
The Recipient shall not later than one month after the Effective Date expand the cope of the mandate of the Project Implementation Unit ("PIU") to cover this Project and thereafter maintain the PIU, throughout Project implementation, under the responsibility of the Ministry of Economy and Finance, with mandate, composition and resources acceptable to the Association.

Sections and Description
Schedule 2 Section I.A. 4 of FA
The Recipient shall, not later than twelve (12) months after the Effective Date establish and thereafter maintain Regional Validation Committees, under terms and composition satisfactory to the Association as further elaborated in the PIM and which shall be responsible for the review and validation of the Project Grants to be extended by the Recipient under for Part 2.3 (e) of the Project and the MBIF Grants and MIARY Grants under Part 3.1 of the Project to Eligible Beneficiaries.

Conditions

Type	Financing source	Description
Disbursement	IBRD/IDA	No withdrawal shall be made, as detailed in Section III.B of the Financing Agreement, under Category (2)(b), unless the PIM has been updated to further elaborate the details of the implementation arrangements, procedures and eligibility criteria for the BDS Grants and SMEs Grants, in a manner satisfactory to the Association.
Type	Financing source	Description
Disbursement	IBRD/IDA	No withdrawal shall be made for Emergency Expenditures under Category (3), unless and until all of the following conditions have been met in respect of said expenditures: (i) (A) the Recipient has determined that an Eligible Crisis or Emergency has occurred, and has furnished to the Association a request to withdraw Financing amounts under Category (3); and (B)

		the Association has agreed with such determination, accepted said request and notified the Recipient thereof; and (ii) the Recipient has adopted the CERC Manual and Emergency Action Plan, in form and substance acceptable to the Association.

I. STRATEGIC CONTEXT

A. Country Context

1. **Prior to the Corona Virus Disease 2019 (COVID-19) pandemic, Madagascar was on an upward growth trajectory and had achieved some progress in poverty reduction.** The economic revival in the period leading up to the COVID-19 crisis was supported by political and economic stability, rising integration into key export markets, growing flows of concessional financing and some structural reforms. Economic activity continued to increase until 2019, and real growth reached an estimated rate of 4.8 percent in 2019[1], its fastest pace in over a decade. Export-oriented sectors such as tourism performed particularly well, with revenues bolstered by a decade high of 375,000 visitors in 2019.

2. **The adverse economic effects of the COVID-19 crisis have been substantial and are expected to be felt well into 2021 and beyond.** 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[2], with gross domestic product (GDP) predicted to contract by at least 4.2 percent in 2020. On the demand side, a sharp contraction in export earnings, particularly from apparel and tourism, has been an important driver of the recession and the consequent fall in wage employment. This drop in exports was linked to the significant contraction in the Euro Area, Madagascar's largest external market, as well as the collapse in tourism from March 2020 onwards. Public consumption and investment, however, have helped support economic activity. Assuming that the pandemic does not worsen, growth is projected at 2 percent in 2021. This modest recovery though will be insufficient to make up for the contraction in 2020 and will result in GDP per capita falling to its lowest level in over a decade.[3]

3. **The private sector has been strongly affected by the economic crisis created by the pandemic, with companies simultaneously hit by demand- and supply-side shocks.** In a survey conducted between June and July of 2020, 96.7 percent of surveyed companies declared a contraction in demand, while 90 percent experienced a decrease in production levels.[4] Around 32 percent of formal companies surveyed are estimated to have closed their doors, at least temporarily. The impact on the labor market has also been significant, with total employment falling by about 7.7 percent in the first half of 2020. Surveys show that almost two-thirds of households have reported a loss of earnings since the start of the crisis.

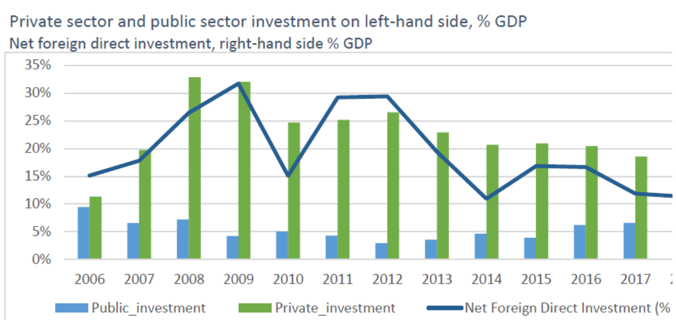
4. **Small and Medium Enterprises (SMEs) have been particularly affected by the crisis in all three project sectors (tourism, agribusiness, digital).** While all firms have been impacted by the economic slowdown, its intensity has been primarily differentiated by size. The INSTAT survey showed that SMEs experienced the biggest revenue contraction, (51.2 percent on average), and have also been shedding the most jobs, while large firms were able to essentially preserve employment levels. Also, women-led firms have been particularly hard-hit.[5] Notwithstanding this negative performance across the board, a recent analysis found that SMEs which had a stronger digital presence have

[1] World Bank Madagascar Overview (*https://www.worldbank.org/en/country/madagascar/overview*), July 2020.
[2] A period of so-called 'transition' started in early 2009 following the non-consistitutional handover of power, and lasted until the 2013 presidential elections
[3] From Systematic Country Diagnostic (SCD) concept note, February 2021
[4] INSTAT, Impact de la COVID–19 sur les activités des entreprises, August 2020. This survey gives an overview of the impact of COVID-19 on a sample of Malagasy firms.
[5] INSTAT, Impact de la COVID–19 sur les activités des entreprises, August 2020.

been better able to ensure continuity of their activities and perhaps as a consequence, protect jobs.[6] The impact of the economic shock has also been differentiated by sector, with the tourism and agribusiness industries particularly hard hit by the collapse in demand and the interruption of intra-regional transport, respectively. The crisis has not spared the digital sector, with digital SMEs with clients in Europe particularly hard hit.

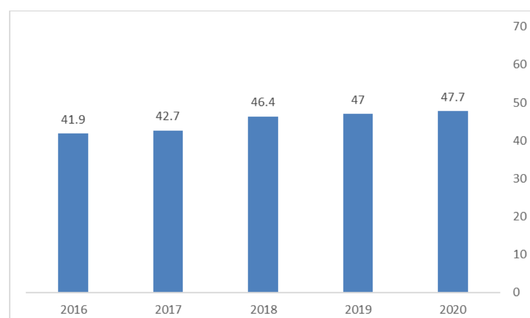
5. **The country's historically difficult economic policy environment, which limits the ability to attract foreign capital and unlock local private investment, will be further constrained by the COVID-19-related economic crisis.** Foreign direct investment and private investment reached good results during the 2008-2009 period, but have decreased since then and stagnated over the last three years (Firgure 1). This performance may be partially explained by a business environment that continues to be challenging, with continued limited momentum for pushing through reforms[7], as illustrated by the stagnation in the country's Doing Business score over the past three years. Madagascar has consistently ranked at the lower end of international rankings, such as the World Economic Forum's Global Competitiveness Index (121th position out of 137 countries in 2017-2018, and an average 125th rank over 2007-2018), the Doing Business ranking (161th position out of 190 in 2020), and the Global Competitiveness Report (132 out of 141 countries in 2019). Challenges for the private sector range from weak governance, insufficient financing, lack of skills, and poor infrastructure. Consequently, domestic investment by nationals has been carried out by the few able to mobilize their own financing and withstand, or even benefit, from the unsupportive environment by taking advantage of bad roads to develop local monopolies, for example. Increasing both domestic and foreign private investment will be key to the recovery from the pandemic, and addressing the structural challenges the country faces will need to be prioritized, given that global competition for investment will likely be intense.

Figure 1. Private, Public sector investment, and Foreign Directly Investment (FDI) in Madgascar



Source: World Bank. World Development Indicator

Figure 2. Madagascar Ease of Doing Business Score 2016-2020



Source: Doing Business Report

6. **Madagascar is among the countries most exposed to climate change[8], natural disasters and environmental risks, with a growing impact on private sector development specifically, and the pandemic has aggravated this.** Madagascar's location, topography, and socioeconomic conditions, combine to make it highly vulnerable to climate change and extreme weather events, with cyclones, flooding, and drought posing the greatest risks in different parts of the country. The bulk of Madagascar's population remains dependent on a range of natural resources for their

[6] 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. MEF/INSTAT, Impact de la COVID–19 sur les activités des entreprises, August 2020.
[7] Madagascar Country Private Sector Diagnostic, forthcoming.
[8] SCD draft concept note, 2021.

livelihoods, with 80 percent of the population depending on agriculture as their primary source of income. However, despite the pre-COVID-19 growth revival, progress in reducing rural poverty was limited by low and declining agricultural productivity. Poor market access in rural areas and the vulnerability of agricultural production to climatic shocks were the main reasons for stagnant productivity. The pandemic has placed additional pressure on the environment by also reducing the available public funding to manage protected areas, while the economic downturn has enhanced the incentives for poaching, deforestation and other illegal activities including in protected areas, which will have short and longer-term negative impacts, including on tourism. See annex 6 for a full discussion on climate impact and project's response.

B. Sectoral and Institutional Context

7. **The agriculture and agro-processing sector, which plays a crucial role for employment, growth and poverty reduction, has been strongly affected by the consequences of the COVID-19 pandemic.** Prior to the crisis, the agriculture sector (including livestock and fisheries) represented 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 come from vanilla proceeds. Importantly, the sector's contribution to growth was still modest compared to other low-income countries, suggesting a significant dormant potential[9]. Creating earnings opportunities in activities at the periphery of basic agriculture therefore holds great promise for poverty reduction in Madagascar. In recognition of this crucial role for development, the government has set ambitious goals for the sector at large in its draft Plan Emergence Madagascar (PEM), including to expand the range of agribusiness activities to respond to local, regional and international market demand. While subsistence farming activities have likely helped cushion the social consequences of the crisis, agribusiness exports have decreased by 8 percent over pre-COVID-19 levels[10], as a direct consequence of the shutdown of foreign markets, negatively impacting the economic outlook. The situation has negatively impacted local agribusinesses activities and farmers' revenues. Nevertheless, the COVID-19 context has also highlighted new opportunities, for example, with the introduction of ad hoc approaches to digitalization of licensing procedures. Due to emerging market trends around sustainability, health and climate concerns, some value chain segments such as the essential oils for phytotherapy have also registered increased demand. Demand for product traceability is increasing.

8. **The tourism sector, a key source of job creation and multiplier effects, has been devastated by global and national border closures, travel restrictions and domestic confinement measures.** Recent analytical work by the World Bank (Country Economic Memorandum (CEM), Report No. 143987; Country Private Sector Diagnostic, forthcoming) highlights tourism, along with the agribusiness and digital sectors, as having some of the best prospects for promoting private investment and job creation in the country. Prior to the crisis, the sector accounted for approximately 44,000 direct and 300,000 indirect jobs. Acknowledging this potential, the Government of Madagascar (GoM) set a target of 500,000 international tourist arrivals for 2019, expected to generate up to US$1.4 billion tourism receipts, resulting in a doubling of the number of direct jobs in the sector and increasing the direct contribution of tourism to GDP from 5.1 to 8 percent, bringing it in line with the average for other African countries. This target was subsequently postponed to 2023 but will inevitably be further impacted by the COVID-19 crisis. As a destination, Madagascar depends on international tourists and air connectivity. Globally, international arrivals were down by 74 percent in 2020 and by 64 percent in Sub-Saharan Africa.[11] Moreover, Madagascar's most important source markets are some of those most impacted by the pandemic and resulting travel restrictions, France, Italy, and Europe in general. The impact on tourism

[9] World Development Indicators database, 2020.
[10] Calculations from Service des Douanes Statistics.
[11] United Nations World Tourism Organization (UNWTO), Tourism Recovery Tracker, February 2021.

enterprises has been severe. In June/July 2020, operators already reported an average decline in tourism sales revenue of more than 90 percent, and around 10 percent reported selling some of their assets to maintain cash flow, more than for any other sector.[12] Recent data from the private sector suggests that 88 percent of direct tourism employees have been subjected to "*chômage* technique"[13], with only the most essential staff kept on.[14] Uncertainty on the timing for a full border reopening, the continuing health crisis situation, and the future of the national carrier[15] and its domestic subsidiary all worsen the outlook for the country's recovery. While government support measures have been welcomed by the private sector, their effectiveness has been limited due to, inter alia, complex eligibility criteria and application processes, and insufficient cash flow to cover even deferred tax and other payments. However, visitation levels following the initial reopening of the border in Nosy Be in October 2020 indicate some latent demand that can be leveraged during the recovery period. See annex 5 for a detailed discussion of the COVID-19 impact on the tourism sector and the response of the GoM, including WBG support to that response.

9. While still nascent, the digital sector has been rapidly expanding since 2015, and has also been affected by the COVID-19 pandemic. While currently generating a revenue estimated at US$440 million (about 3 percent of GDP) and employing a labor force of about 22,600 people[16], the digital sector was expected to grow significantly, with the Business Process Outsourcing (BPO) sub-sector potentially employing up to 100,000 people by 2030.[17] Thanks to increased mobile coverage (86 percent in 2018[18]) and reduced communication costs, mobile phone usage has risen to 45.7 percent of the population[19]. An emerging cluster of software development companies, primarily relying on high-end digital skills, with around 500-600 software engineers trained per year, and comparatively low cost of labor, could lead to a supply of products and services supporting the digitalization of both government services and other sectors. The domestic Information Technology (IT) industry operates at much higher (5x) value addition and wages than business process outsourcing and could have wider enabling effects on IT capacities in both the government and private sector. However, the digital sector overall has also been affected by the COVID-19 pandemic. A recent survey of the digital sector indicates that 81 percent of digital sector companies (which consists mainly of SMEs) have seen revenue decrease since the onset of the pandemic; almost half of them stated a decrease of between 25 and 50 percent. A third of firms noted they will be downsizing staff by 25 to 50 percent. This impact is due to malagasy firms' current customer base: SMEs in Europe that have been particularly hard-hit. As economies in Europe vaccinate their populations and re-open, these opportunities are likely to resume.

10. Before the COVID-19 crisis, access to finance and quality business development and support services were key constraints for Malagasy SMEs, hindering overall economic transformation and firm growth. [20] Lacking access to formal credit (Madagascar ranked 132 out of 190 countries on access to credit[21]) many high-potential Malagasy SMEs cannot grow sufficiently to develop economies of scale and create employment opportunities. Early stage access to funding is highly constrained. Financial support from the government at the earliest stage is virtually non-existent, apart

[12] INSTAT, Impact de la COVID–19 sur les activités des entreprises, August 2020.
[13] "*chômage technique"* refers to a situation of temporary lay-off or partial unemployment.
[14] Confédération du Tourisme de Madagascar, Etat des lieux de l'industrie touristique regroupée au sein de la CTM (mars-decembre 2020).
[15] The national carrier, Air Madagascar, has encountered significant financial difficulties for years.
[16] Madagascar: Ecosysteme numerique: cartographie et propositions de mesures d'attenuation des effets du COVID-19 et d'appui au secteur, EU Commission, November 2020.
[17] CEM, 2019.
[18] According to the Communication Technology Regulation Authority (Autorité de Régulation des Technologies de Communication, ARTEC).
[19] Based on SIM cards which are active. Communication Technology Regulation Authority (*Autorité de Régulation des Technologies de Communication*, ARTEC), 2019.
[20] Other key challenges for the development of digital start-ups include infrastructure, such as cost of broadband, and energy provision, and the regulatory framework.
[21] 2020 Doing Business in Madagascar report.

from those provided through donor support. There is no structured angel network[22]. Some programs have appeared for the later seed and growth stage funding[23]. These funders without exception note that Malagasy SMEs require sustained and substantial technical assistance, in the form of acceleration or incubation programs, specialized capacity building, business development services, or a combination of several of these interventions, which are currently very limited in the Malagasy context. Indeed, a rapid ecosystem mapping conducted in 2019 and updated in 2020 shows significant gaps in both finance and business development support for entrepreneurs at all growth stages. In general, idea-stage and early-stage entrepreneurs do not get the funding or experienced mentorship and structured and market-oriented support they need. Some new initiatives from larger players (Orange, Axian) have started in the slightly later stage of firm development, but they suffer from the weakness of the pipeline. Finally, support is currently almost exclusively geographically concentrated in Antananarivo, despite a recognized potential in other regions.

11. **Harmonizing and improving the investment policy and legal framework can support investment attraction and recovery.** The institutional and regulatory framework of investment policy in Madagascar is fragmented[24], mainly due to a lack of overarching political vision and investment strategy. In addition, even when policies are in place, there are shortcomings for an effective implementation of the regulatory framework. To support economic recovery, investment policies and regulations will require harmonization to mitigate investor uncertainty and encourage investment. Approval of a new Investment Law currently under government review would be an important step towards strengthening investor protection guarantees (for example, non-discrimination, expropriation, and access to dispute resolution).

12. **Deficiencies in essential infrastructure and services constitute one of the most important binding constraints for all three sectors.** According to the Global Competitiveness Index (2019), the quality of roads in Madagascar is rated 2.2 on a scale of 1 to 7, while air transport and port activity perform only slightly better at 3.2. Also, while road investment planning and maintenance are officially delegated to independent agencies, basic repair and maintenance work have fallen short due to poor planning and management, combined with resources misallocation. In 2012, half of the secondary roads and two thirds of the tertiary roads—which are critical to the development of the agricultural sector and the reduction of poverty in rural areas—were classified as in “bad condition”. Deteriorated urban roads also limit attractiveness of tourism visitation and investment. In addition to poor air transport infrastructure, limited direct long-haul air connectivity and high ticket prices further constrain air access to the island for tourists. Moreover, costly and erratic electricity supply has been found to be one of the most serious obstacles to businesses, including those in the digital, tourism and agribusiness sectors – further to adversely affecting living conditions.

13. **Regulatory impediments, technical capacity and coordination gaps in line ministries, and among other stakeholders, represent additional challenges to further development of key economic sectors.** Unclear separation of mandates of the various public institutions involved in supporting tourism, agribusiness and more generally industry and commerce complicates strategic planning and governance. In the tourism sector, regulatory and fiscal structures and costs, and related issues with their application, both encourage informal rather than formal activities and hinder the attraction of investment. A lack of accurate sectoral data and monitoring capacity limits the evidence base for planning and investment outreach needed to support the sector. In the agribusiness sector, weakness of agricultural extension services and essential support services such as quality control, traceability, sanitary and phytosanitary

[22] An angel network is group of angel investors, (also known as a private investors, seed investors or angel funders) who have organized to provide financial backing for small early-stage startups
[23] Miarakap in 2017 on the equity side, with targeted ticket size of US$ 30K-300K, Fiaro Venture Capital as a VC fund associated with the Orange Fab incubator, Investisseurs & Partenaires (I&P) for growth stage for US$ 500K-3M ticket size.
[24] Madagascar CPSD, forthcoming.

standards, as well as agrologistics such as storage facilities, adds to sector challenges. In addition, regulatory obstacles to competition hinder entry, adversely impacting market dynamics[25], while unclear rule of the games such as discretionary licensing procedures affect the overall competitiveness of the agribusiness sector.

14. **Government capacity to deal with increased investments and associated demand for public services needs to be strengthened.** Government, both at the national and local levels, can either be a limiting or supporting factor when it comes to private investment. Local governments that are both financially and technically prepared for these changes are more likely to support new private investments. Previous World Bank financed projects in the country (see Box 1 below) have demonstrated that local governments with strengthened institutional capacity that actively participate in decision-making and implementation of local investments show enhanced outcomes, better coordination and higher sustainability of impacts. Further, the focus on ensuring that national government capacity is built will also provide a greater chance for sustainability of the reforms and initiatives supported by the project.

C. Relevance to Higher Level Objectives

15. **The Economic Diversification for Inclusive Growth ("PIC 3.1") Project takes an integrated, multi-sectoral approach to job creation and inclusive growth in Madagascar.** The design of the project includes the implementation of different types of activities, including direct support to SMEs and entrepreneurs (grants and technical assistance), infrastructure investments (small works in roads, water and electricity), and technical assistance and capacity building to government and other institutions, including private sector ones. Implementation of these activities requires a strong coordination between different levels of government (national, regional and local), as well as close consultations with the private sector. This integrated approach has been successfully implemented in previous PIC projects (see Box 1 below for summary of PIC projects and results), and has relied on, among other things: an effective coordination of several ministries by a strong Project Implementation Unit (PIU), decentralized project presence in the targeted poles, which has helped to build and promote local ownership of project activities and coordination with regional and national level stakeholders, including several ministries, agencies and private sector entities, and strengthening of government capacity (especially local governments) for implementation. In addition, the PIC projects have been closely supervised by World Bank teams, and are closely coordinated with the growing portfolio of WBG projects in the country (see paragraph 25 below), which cover relevant areas such as infrastructure, local development, and agriculture. This close coordination will further reduce the complexity (in terms of the array of interventions that the project will implement and actors involved) and scope of the PIC3.1 project, and means that large investments (particularly in transport and other infrastructure) can be covered by those projects.

BOX 1. Madagascar's *Pole Intégrés de Croissance* (PIC) – Series of Projects

The *Pole Intégrés de Croissance (PIC)* Projects are a series of Private Sector Development Projects that have been implemented over a period of fifteen years at a decentralized level in some of Madagascar's poorer regions to support the development of SMEs in some of the most promising growth sectors in the country.

The PIC1 (2005-2014) project was implemented during a period of suspension of Bank operations in the country due to the 2009 political crisis. The project supported the agribusiness, tourism, manufacturing and mining sector, and demonstrated the effectiveness of an integrated, multisectoral and private sector-led approach to regional development, job creation and investment promotion, even in a fragile context. The Project reached 96 percent of disbursements, contributing to the creation of more than 5,000 formal jobs in the tourism sector, the rehabilitation of more than 46 km of urban roads and 136 km of rural roads, the decrease

[25] For instance, in the lychee value chain, the largest players, concentrated in the eastern part of the country, are colluding to deter new players in the southern region from entering the market (for example, by effectively enforcing export quotas).

in time to register a business and obtain construction permits, while also supporting an increase in revenues collected by local communes supported by the project[26].

The PIC2.1 (2015-2019) project was designed to build upon that experience, and contributed to strengthening the post-2009 crisis economic recovery through agribusiness and tourism investments in additional regions, including in the South of the country (Atsimo Andrefana, and Anosy provinces), as well as investment climate reforms including the creation of One-stop Shops (OSS) for government to business services and digitalization of procedures at the commercial court. The project contributed to the creation of more than 10,000 jobs in tourism and agribusiness in the targeted poles, to the increase of US$6.8 million in the export value for selected crops in the targeted poles and the creation of more than 100 new businesses in the agribusiness and tourism sectors[27].

The PIC 2.2 (2019-2023) project, under implementation, has further expanded the geographic coverage to the island of Sainte-Marie (to support tourism), as well as the scope of project activities to cover a set of more wholistic investments needed for the local private sector to thrive, including activities on Investment Climate reforms, Investment Promotion, Public Private Partnerships (PPP), and Governance – addressing bottlenecks to development identified in the Country Partnership Framework and other key World Bank analytical reports. It is also increasing support to high value-added agribusiness value chains as well as key tourism sites. The series of projects have also been designed to leverage ongoing infrastructure works (for example, rehabilitation of national highways, investments in electricity supply) as well as intervention to ease financing constraints (promotion of micro-finance, investment climate reform) financed by IDA and other development partners to catalyze local private sector development.

The proposed PIC 3.1 further builds on these activities, incrementally expanding the project scope and including the cross-cutting digital sector, as well as incorporating a strong focus to promote women economic empowerment and green growth. Annex 4 provides a more detailed description and comparison of PIC2.1, PIC2.2 and PIC3.1.

16. **The project is fully aligned with the objectives of the World Bank Group 2017-2021 Country Partnership Framework (CPF).**[28] 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.

17. **The World Bank has adjusted its CPF in response to COVID-19 as detailed in annex 5**. The significant impacts of the pandemic on Madagascar will have a major impact on Madagascar's development financing needs over the next two years, thereby requiring adjustments to the WBG country program. In line with the World Bank Group COVID-19 Crisis Response Approach Paper from June 2020, resources have been realigned to support priority actions aimed at saving lives threatened by the virus; protecting the poor and vulnerable; securing the foundations for the private sector; and strengthening policies and institutions for increased resilience based on transparent, sustainable debt and investments. Program adjustments include: (i) reallocation of portfolio resources through activation of CERC and restructuring and reallocations of existing programs; (ii) developing new operations responding to the pandemic that were not envisioned in the original CPF program to respond to the COVID-19 pandemic; and, (iii) reprioritization of the CPF pipeline to advance operations that were planned for later years (from FY22/23 to FY21) while delaying selected new operations in infrastructure.

[26] Project outcome for PIC1 was rated as Moderately Satisfactory in the Implementation Completion and Results Report (ICR0003490), a rating validated by the Independent Evaluation Group (IEG) Implementation Completion Report Review (ICRR 14941).
[27] Project outcome for PIC2.1 was evaluated as Satisfactory in the ICR (ICR00005188), a rating also validated by IEG (ICRR0022131).
[28] World Bank Group 2017. Country Partnership Framework for the Republic of Madagascar for the Period of FY17-FY21. Report number 114744.

18. **This project is part of the Resilient Recovery Stage which is supported by US$450 million in IDA financing**. This project is part of a strongly complementary approach whereby the ongoing Madagascar Integrated Growth Poles and Corridor SOP-2 Project (P164536) is being restructured to scale-up immediate support to the private sector during the COVID-19 crisis, with additional funds from the portfolio-level CERC[29], while the new proposed Economic Transformation for Inclusive Growth Project will provide significant support for the subsequent economic recovery, with an expanded sector and geographical coverage, and a focus on economic transformation including through digital entrepreneurship.

Table 1. Adjustments to the CPF to Support COVID-19 Response

Response Phase	Portfolio Reallocations, incl. CERC	New/ unplanned Operations	CPF Operations Brought Forward	CPF operations adjusted but proceeding as planned	Total
Relief	136	90			226
Restructuring		152	150		302
Resilient Recovery			100	350	450

Source: World Bank Group.

19. **The project is aligned, and informed by the GoM's development strategy, including the PEM.[30]** More specifically, the project is in strong alignment with the following 'commitments' ("*velirano*") from the GoM's PEM[31]: on decent employment for all (Commitment 6); on industrialization and economic emergence (Commitment 7), which includes specific aspects on entrepreneurship and the digital sector; on access to energy and water for all (Commitment 2); on food self-sufficiency and the development of a modern agricultural sector (Commitment 9); and on the autonomy and accountability of decentralized territorial authorities (Commitment 12).

20. **The project supports the Jobs and Economic Transformation (JET) agenda, a diversified, competitive, and inclusive private sector creates jobs and opportunity, including for women and in disadvantaged regions.** The IDA19 Special Theme Paper on JET (Report No. 139725) provides the policy framework with a focus on two pillars: "creating and connecting to markets" and "building capabilities and connecting workers". Under the first pillar, the PIC3.1's integrated approach will support three of the four policy priorities, namely: (i) Strengthening the enabling environment to provide incentives to invest, notably under the project's component 1; (ii) Supporting enabling sectors to raise productivity and directly help connect firms to larger markets, under the project's components 2 and 3; and (iii) Adopting new technologies to raise productivity under the project's component 2 and 3. It will also support the second JET pillar, on improvements in human capital to improve worker productivity, in all three of the project's components.

21. **The project is aligned with the WBG's "Maximizing Finance for Development" (MFD) approach.** The project will help facilitate the government's plan to develop the private sector and leverage private sector investment for job creation in the agriculture, tourism, and digital sectors. Project support to improving the investment climate and business environment will enhance the incentives for companies to invest in the country by providing more clarity and predictability to the investment legal framework, and by making interactions with the government less onerous and more transparent. The project will also directly support investment promotion activities in tourism, agribusiness, and

[29] Additional Financig (AF) to the Madagascar Integrated Growth Poles and Corridor SOP-2 Project (P175172), approved by the World Bank board on December 10, 2020, pending effectiveness.
[30] The COVID-19 response plan has yet to be adopted.
[31] Velirano 2 : l'énergie et l'eau potable pour tous; Velirano 6 : l'emploi décent pour tous; Velirano 7 : l'industrialisation de madagascar et l'émergence économique; Velirano 9 : l'autosuffisance alimentaire et l'émergence d'un secteur agricole moderne; Velirano 12 : l'autonomie et la responsabilisation des collectivités territoriales décentralisées.

digital sectors, building on groundwork laid under PIC 2.2, and renewed government prioritization for such an approach. Financial and non-financial support to SMEs and start-ups will help to de-risk new business opportunities, making these firms more "investment ready", including for potential downstream International Finance Corporation (IFC) investments. Financing for essential public goods and services, such as tourism destination upgrades, will be used to leverage private investments. Overall, it is expected that the project will catalyze a total of US$21 million in direct private investments from supported SMEs in the three sectors over the life of the project, amount which is expected to increase in subsequent PIC3-2 as COVID-19 impacts subside.

22. **The project will support a Green, Resilient, and Inclusive Development (GRID) approach for a more resilient and sustainable private sector recovery.** Given the current context for implementation, the project's immediate support to SMEs and start-ups in the target sectors will specifically aim to support their recovery from the pandemic impact, increase their resilience, while also promoting climate sustainability. In practice this will mean a focus on, among other things, building new commercial relationships and rebuilding old ones, supporting repositioning of tourism products and capacity building increasing sustainability and traceability in agri value chains (using digital tools), increasing digitalization of operations and services (across all three sectors), and diversification of suppliers. In addition, project interventions and investments will aim to improve resilience of SMEs and destination areas to climate impacts and risks. See annex 6 for further details on climate aspects and the project's response.

23. **The project will contribute to improve the quality of women's economic participation.** The project will be deliberate in incorporating in the design of project activities, features that seek to address the identified gaps between men and women with respect to their participation in economic activity in the country. Project activities that will incorporate a gender angle include, for example, the reforms to the business environment (for example, registration, permits, commercial courts), training sessions for public servants, organizations, and the private sector, as well as activities to support SMEs and entrepreneurs. The latter will include specific calls for proposals for women entrepreneurs, and the provision of tailored technical support through all three windows of component 3. This specific training will include, for example, personal initiative (PI) training, which focuses on developing non-cognitive skills and successful entrepreneurial behavior that has been demonstrated to be an effective psychology-based training for entrepreneurs, particularly for women (see paragraphs 72 and following for a more in-depth discussion on Gender aspects supported by the project).

24. **The project has a strong focus on the Digital Sector and is well aligned with and supports the WBG's Digital Economy for Africa (DE4A) Initiative.** This initiative aims to ensure that every individual, business, and government in Africa will be digitally enabled by 2030 in support of the African Union's "Digital Transformation Strategy for Africa". The project will develop and utilize digital solutions for government to business services (G2B) to facilitate activities for the private sector. Examples include support for the digitization of case management to streamline commercial justice. The project will support improvements in digital adoption by specific agencies as required to perform activities in support to the development of sectors.[32] Digital tools and solutions will also be leveraged to support increased demand for traceability of agriculture value chains, as well as for tourism online booking and payment of facilities and services, the promotion of contactless technology at certain points along the tourism journey, and the collection of real-time data. Finally, the project will also directly support the local digital private sector (startups, scale-ups, growth stage companies) to further facilitate the growth of the sector and its important contribution to future Malagasy development, including in the project's other two sectors, agribusiness and tourism.

[32] in parallel to the World Bank's Digital Governance and Identification Management System Project (PRODIGY - P169413).

25. **Consistent with the CPF approach, the project has been prepared in synergy with relevant World Bank, IFC and development partner projects, and leveraging key advisory work.** In particular, the project is leveraging on existing infrastructure projects by the World Bank and other development partners to maximize private sector benefits. These include: the Agricultural Growth and Land Management Project (P151469), Support for Resilient Livelihoods in the South of Madagascar (P171056) with regards to access to basic infrastructure and local development in the South, local governance in line with the Public Sector Performance Project (P150116), and the Digital Governance and Identification Management System Project (PRODIGY-P169413). Project implementation will also be closely coordinated with other development partner's activities in the country, especially the European Union's (EU) Investment Climate (Clim-invest), and Entrepreneurship (Incuboost) projects. Connectivity activities are informed by the Madagascar Spatial Analysis of Transport Connectivity and Growth Potential (P163751), and coordinated with the Connecting Madagascar for Inclusive Growth Program (P173711). The project is also leveraging key analytical insights from the CEM, forthcoming CPSD, and Digital Economy for Africa (DE4A) 2019 assessment. The project aims to operationalize some of the recommendations of the CPSD deep-dives. The synergy and complementarity developed with the IFC Investment Climate Reform Program (ICRP) during PIC 2.1 and PIC 2.2 will be pursued when relevant. Recommendations of the ICRP-financed study on business licensing in agribusiness, notably on process streamlining, will be supported by PIC 3.1. PIC 3.1 will also complement IFC's Phase 3 – Recovery program[33] including work on tourism, digital skills, and agribusiness, and planned investments. Also, activities under PIC 3 aim to strengthen the pipeline for possible IFC downstream investments, as has been done under PIC2.2. The tourism activities are informed by the World Bank's "Rebuilding Tourism Competitiveness" report[34], particularly phase 2 on short-term recovery, and phase 3 on medium-term recovery.

II. PROJECT DESCRIPTION

26. **This project is presented as the first in a Series of Projects (SOP).** Seeing the protracted nature of the pandemic and thus its impacts on the private sector, there is a strong justification for a new series of projects: PIC3-1 (Phase I) will support the economic recovery from the COVID-19 crisis, the expansion of the PIC model to new regions and sectors, while also piloting novel approaches. PIC3-2 project will focus on moving beyond recovery to focus on increasing again private sector investments in the country, scaling up successful pilot interventions and further strengthening the growth of SMEs by focusing on increasing value addition, including through more green innovation and technology transfer.

Table 1. The PIC 3 SOP

SOP-1 (5 years, $ US 150 million)	SOP-2 (5 years, $ US 100 million, indicative)
Economic Recovery post-COVID	Consolidate Growth
Geographic and sector expansion	Continuing expansion into new zones and sectors
Implementation of Pilot Projects (technology transfer, innovation, early-stage financing)	Scale-up of successful pilots

[33] IFC strategy paper FY21-FY24
[34] World Bank July 2020.

A. Project Development Objective

PDO Statement

27. The Project Development Objective for the proposed Series of Projects (SOP) is to increase private investment and the growth of Small and Medium Enterprises in Target Regions in Madagascar.

28. The SOP will have the following three key indicators to track progress toward the SOP PDO:

i. Percentage change in revenue growth of firms supported by the project in target regions

- Of which female-owned/led.

ii. Number of new jobs by firms supported by the project in target regions

- Of which female.

iii. Value of private sector investment enabled by the project.

29. The SOP Phase 1 Project Development Objective is to increase the growth of Small and Medium Enterprises in Target Regions in Madagascar.

30. The following key indicators will be used to track progress toward the SOP Phase 1 PDO.

i. Percentage change in revenue growth of firms supported by the project in target regions

- Of which female-owned/led

ii. Number of new jobs by firms supported by the project in target regions

- Of which female

31. The project's expected impact in increasing private investment is more likely to be achieved in the medium to long-term, given the severity of the economic impact of COVID-19 pandemic. The SOP-1 will track this impact through an intermediate indicator, while it is expected that it will become a PDO level indicator for the SOP-2.

32. An important aspect of expected project impact is not only to increase revenue growth in SMEs supported but also to increase the resilience of these firms, especially in light of the lessons being learnt during the current COVID-19 pandemic. Likewise, an important aspect of the jobs that will be created through the project support is the quality of these jobs. Therefore, the project will seek to conduct evaluations of project achievements during implementation that will take into account these important aspects, so as to inform and adapt project interventions to enhance impacts.

33. The project will pursue a phased expansion of the geographic focus of the project, in line with previous PIC projects. As a regional economic development project, the geographic scope will cover the existing target PIC 2.2 regions of Diana, Anosy, Atsimo-Andrefana, and Sainte-Marie. The Analamanga[35] region has been included in the project for digital and entrepreneurship activities, with the possibility of inclusion of the two other sectors (tourism and agribusiness) at a later stage during project implementation. A phased geographic expansion along the East coast (including along the canal des Pangalanes) has been agreed with the GoM, commencing with targeted sectoral

[35] Analamanga region has been added to the project essentially for its high concentration of digital firms and entrepreneurship support institutions. The aim of this addition is not only to support the digital sector, but to leverage this cluster to support the tourism and agribusiness sectors across the other regions supported by the project.

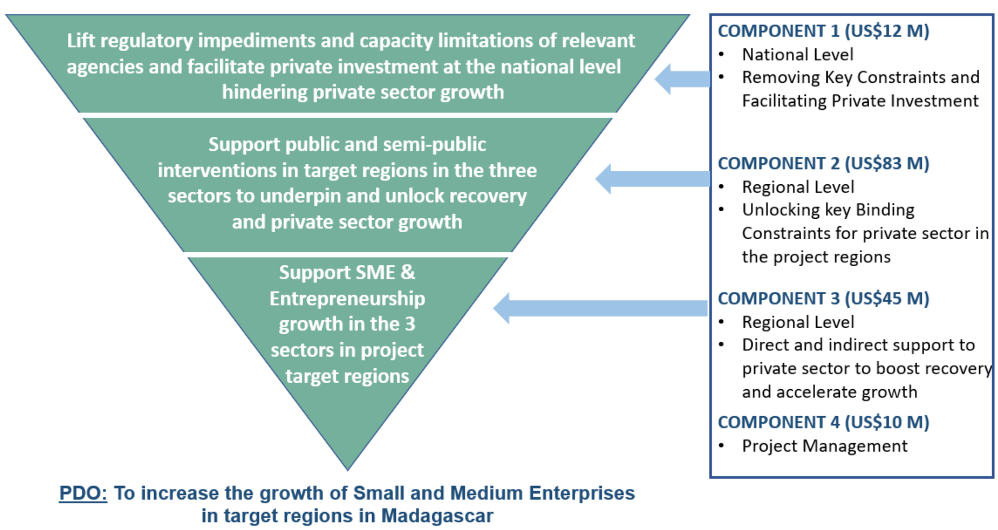
investments that link to existing PIC 2.2 activities[36]. The scope will then be scaled-up gradually over the duration of the project, with the East Coast geographic footprint evolving incrementally through a step-by-step and demand-driven approach during the implementation of the project. See annex 3 for map of project target regions.

34. **Clear selection criteria and in-depth discussion with the authorities led to agreement on the geographic scope for the phased expansion of the project.** The criteria used to determine the addition of this region included: (i) alignment with government priorities, including the PEM; (ii) the existence of a natural extension of current PIC zones and/or of key value chains already supported by PIC2.2; (iii) clear synergies with key World Bank or development partner funded infrastructure programs, and in particular road and other large infrastructure works; (iv) presence of anchor investor(s) and/or sizeable cluster(s) of competitive export-oriented firms in the target sectors; and (v) a strong public and private interest in partnering with the WBG to promote private sector development, employment and shared prosperity.

B. Project Components

35. **The project is an Investment Project Financing of a proposed amount of SDR 104.5 million (US$150.0 million equivalent), structured around mutually reinforcing components that support COVID-19 recovery:** (1) Attracting and Retaining Private Investment and Removing Key Constraints to Support Economic Recovery from the COVID19 crisis; (2) Removing Constraints to Private Investment and Enhancing Local Economic Competitiveness to Support Recovery in Target Regions and Target Sectors; (3) Supporting SMEs and Entrepreneurship Recovery and Growth in Target Sectors and Target Regions; (4) project implementation; and (5) A zero dollar contingent emergency response component (CERC).

Figure 3. Schematic overview of the Project



36. **As a COVID-19 recovery project, the project will continue supporting the private sector in agribusiness and tourism as under PIC 2.2, while adding a new sector, digital**. The project will deepen interventions from previous PIC projects, while adding digital both as a sector in its own right with strong growth potential, and as an enabler technology

[36] For the tourism sector, see paragraph 43 for the proposed progressive approach. Interventions in Analamanga will start with support for the digital sector. Potential activities in the tourism and agribusiness sectors in the Analamanga region will be explored and agreed between the Government and the World Bank during a later stage of implementation of the project.

to support the growth of tourism and agribusiness sectors. The focus of the first 1-2 years of implementation will be to support the private sector's recovery from the COVID19 crisis, moving to a gradual return to growth and expansion in years 3-5. A CERC for PIC2.2 was activated and approved in December 2020 to finance the more immediate emergency response in support of the private sector, and is currently under implementation.

Table 2. Project Budget by Components and Subcomponents

Components	Total
Component 1: Attracting and Retaining Private Investment and Removing Key Constraints to Support Economic Recovery from the COVID19 crisis (US$ 12 M)	
1.1: Support to strengthen investment promotion to accelerate the economic recovery	6 M
1.2: Support to strengthen the business environment to contribute to economic recovery	6 M
SUB-TOTAL	**12 M**
Component 2: Removing Constraints to Private Investment and Enhancing Local Economic Competitiveness to Support Recovery in Target Regions and Target Sectors (U$ 83 M)	
2.1: Technical support to strengthen the competitiveness of value chains in the target regions	19 M
2.2: Strengthening local infrastructure to support the growth of target sectors and business development	57M
2.3: Strengthening local governance to support sectors growth and business development	7 M
SUB-TOTAL	**83 M**
Component 3: Supporting SMEs and Entrepreneurship Recovery and Growth in Target Sectors and Target Regions (US$ 45 M)	
3.1: Support to Start-ups and SMEs in target sectors	37 M
3.2: Strengthening Firm Capabilities through Ecosystem Upgrading	8M
SUB-TOTAL	**45 M**
Component 4: Project Implementation (US$ 10 M)	
PROJECT TOTAL (US$ 150 M)	

37. **The objectives of each of the components and their respective activities are described below.**

(a) Component 1. Attracting and Retaining Private Investment and Removing Key Constraints to Support Economic Recovery from the COVID-19 crisis (US$12 million equivalent)

38. **The objective of this component is to support policy, administrative and regulatory reforms and improvements that will facilitate investments and business operations in Madagascar.** In addition to the management of the health and social aspects of the pandemic, economic recovery from the COVID-19 crisis in Madagascar will depend on the ability of the government to convince current investors to stay and re-invest, to attract new investors, and to provide a conducive environment for local MSMEs to grow. This component will help the Government achieve these objectives by supporting (i) the improvement in government interactions with investors and MSMEs, and (ii) the improvement in government capacity to formulate and implement policy and regulations that affect investments and business operations. The project will use digital technologies and tools (digital platforms, applications, transactions or others) to help in the achievement of sub-component objectives. This will include digitalization of G2B services, and support for the government to improve its online presence (for example, for investment promotion) to strengthen coordination, increase transparency and improve communication of its programs and policies, among other activities.[37]

[37] This will be done in close coordination with other WBG and donor interventions in the country, especially with the World Bank's PRODIGY project.

(i) Sub-component 1.1. Provision of support to strengthen investment promotion to accelerate the economic recovery (US$6 million equivalent)

39. **The objective of this sub-component is to support the government's efforts to retain and expand existing investments while attracting new ones.** This will be achieved by the implementation of activities that seek to improve the policy and legal framework for investments, strengthening the coordination and implementation of investment promotion activities, and by expanding the existing investment retention program.

i. Support to harmonize and improve the investment policy and legal framework. Given the fragmented institutional and regulatory investment framework in Madagascar as highlighted by the CPSD, the project will support the harmonization and streamlining of investment related laws and regulations, as well as institutional coordination for a more effective implementation of these laws and regulations. Priorities will include the support to the implementation and communication activities for a new updated Investment Law, once approved[38] and its subsequent decrees, and the elaboration of an Investment Code, gathering the texts and provisions related to investment, and making this information available online, which should increase transparency and facilitate access to information by potential and existing investors. In addition, the project will also support the review of sector specific laws and regulations to identify needed improvements to facilitate investments, and the development of policies and strategies related to investment.

ii. Strengthening Investment Promotion. The project will support line ministries directly responsible for the targeted sectors (Ministries in charge of Industry and Commerce, Tourism and Agriculture), Economic Development Board of Madagascar (EDBM) and other relevant ministries, agencies and key private sector organizations to coordinate and improve the process by which investment promotion is carried out in the country for tourism, agribusiness and digital sectors. Priority activities under this sub-component include: (i) strengthening institutional coordination and capacity to design and implement investment promotion activities, and (ii) improving the generation of core data and gathering of market information important for development of strategies and policies related to investment promotion. Particular focus will be placed on attracting investments that can enhance environmental sustainability and climate resilience, and on using digital technologies to enhance the effectiveness of investment promotion activities.

iii. Implementing a Customer Relationship Management (CRM) system for Investors. In the aftermath of the crisis and given the new context brought by the pandemic, reinforcing the investor aftercare program is key to retaining existing investments in the country. As part of the current investment retention program, a relationship management system using a free platform (Hubspot) has been put into place as a transitional solution. This system is for the moment limited to investor aftercare services. The project will support the implementation of a full CRM system for the various services of EDBM, including the investment promotion activities. Such system will strengthen EDBM's ability to track the investor services they provide (from first contacts, to lead to projects, to issues, reinvestment and linkages), thereby improving the quality of these services. This support is based on a needs assessment recently carried out in 2020 (with support from the African Development Bank (AfDB) with respect to a CRM for EDBM. The project will draw lessons from the use of the current platform in the design and implementation of the expanded system and will coordinate closely with Ministry in charge of Industry, Commerce and Handicrafts (*Ministere de l'Industrie, du Commerce et de l'Artisanat* - MICA) in the development of this activity.

[38] Draft Investment Law is under government review, prior to submission to Parliament for approval.

(ii) Sub-component 1.2. Strengthening the business environment to contribute to economic recovery (US$6 million equivalent)

40. **This sub-component will contribute to improving the enabling environment to facilitate business entry and operation.** This will be achieved by supporting activities to: (i) reinforce institutional capacity and public-private dialogue (PPD) for more effective and conducive policy making; (ii) improve, automate (whenever possible) and enhance the transparency of the interactions between government institutions and businesses[39], especially firm registration, the granting of licenses, permits, approvals and other key documents (such as property registration) needed for a business to enter and operate in Madagascar, as well as mechanisms for a more effective and efficient resolution of commercial disputes. The sub-component will finance Technical Assistance (TA), capacity building, equipment and small works (improvements to offices and working environment).

i. **Strengthen institutional capacity and PPD.** The project will finance capacity building for relevant ministries (including Ministires in Charge of Industry, Agriculture and Tourism), public agencies (including the national and regional bodies in charge of destination promotion, EDBM), and PPD platforms (including *Commission de Reforme du droit des Affaires (*CRDA - Business Law Reform Commission), *Confederation du Tourisme de Madagascar* and other private sector associations, national and regional multi-stakeholder platforms in agribusiness). This sub-component will support the strengthening of existing PPD mechanisms at national and regional level led by MICA and EDBM, and help create, where needed, new platforms or working groups to help inform discussions on reforms and policies under government consideration, validate changes being proposed, and support implementation of the specific reforms and activities being undertaken by the project, in coordination also with ongoing activities by IFC and the EU, among other development partners. These actions will help the Government to be more responsive to business needs and constraints, contributing to improvements in the design and implementation of reforms and policies and their sustainability.

- **For the tourism sector,** in addition to supporting national-level capacity strengthening and PPD for the review and updating of the legal, regulatory and administrative framework, this sub-component will support the Ministry in charge of tourism, bodies in charge of destination promotion and tourism private sector associations with: (i) financial and technical support for implementation of institutional and strategic plans aligned with the project's objectives and with increased economic and climate resilience; (ii) financial and technical support for the development and implementation of an enhanced framework and systems for tourism data collection, management and dissemination, and (iii) financial support to accessing market intelligence and technical support for its use for demand-driven sector repositioning and planning.

- **For the agribusiness sector,** the project will support line Ministries in charge of Trade and Industry and Agriculture, to review, harmonize, update, implement and monitor the legal and regulatory framework covering key agribusiness value chains. This will include support to PPD to clarify and streamline administrative procedures and regulations for export-oriented sectors[40]. Activities will also include (i) technical assistance to identify specific value chain segments and products that can respond to new market opportunities created by the COVID-19 crisis and to diversify the needed marketing strategy of local agribusinesses; (ii) support for the development and implementation of market-based strategies for value

[39] In the process of improving G2B interactions, the project will also improve Government to Government (G2G) and Government to Citizen (G2C) interactions, given that it is expected that the streamlining of processes will improve interaction between agencies, while making information more accessible and transparent will also improve public accountability. This will be done in close coordination with the World Bank funded PRODIGY project.

[40] For example the essential oils sector has concerns on the reforestation obligation related to the use of firewood, that overlaps with an export tax of 1.5 percent FOB value allocated to the Ministry in charge of the Environment.

chain development, including those developed with support of PIC2.2. such as the National Cocoa Plan; and (iii) technical assistance to design and implement a program to support export promotion activities for SMEs and other relevant stakeholders, such as attendance to key international events (conferences and trade fairs) and organization of similar events in Madagascar, with the goal to restore direct contacts with buyers. Value chain segments eligible for green export[41] will be prioritized by the project for support, while other specific project activities to encourage a more sustainable and environmentally friendly agribusiness sector will include the implementation of the domestic organic policy and fair-trade labels (including support to the national standardization body (*Bureau de Normes de Madagascar*) to adapt accordingly to these new norms and standards), and awareness raising among public actors on impact of climate change or mitigation actions needed to improve policy making.

- **For the digital sector,** activities will support the relevant Ministries (including Ministries in charge of Post and Telecoms, Industry and Trade, Agriculture, and Tourism) and agencies and will include financial and technical support to improve access to data and market information and to support the development of a demand-driven strategy for expansion of the digital sector, including diversification of export markets (current main market is France) and subsectors (beyond BPOs).

ii. Improving Government to Business services delivery. This sub-component will support the improvement, streamlining and digitalization of government services to businesses, with initial priority support to business registration and licensing, registering property and resolution of commercial disputes in the targeted regions and sectors. The work on business registration will include support to the revitalization of the EDBM regional branches in the targeted poles for more effective decentralization of services. The support to business licensing will be based on the recommendations from substantial analytical work undertaken by previous WBG technical support[42] which identified the main constraints and the areas of much needed reforms in the tourism, agribusiness, and ICT sectors but also in transversal sectors. This support will be done in the regions of intervention of the project, in line with the Government's strategy to strengthen the decentralization of key government services, and in close collaboration with the Ministry in charge of Industry and Commerce, EDBM, Chamber of Commerce and Industry, and other relevant public and private ministries and agencies. The project will finance TA, capacity building, equipment and small works.

(b) Component 2. Removing Constraints to Private Investment and Enhancing Local Economic Competitiveness to Support Recovery in Target Regions and Target Sectors (US$83 million equivalent)

41. **The objective of this component is to facilitate recovery from the COVID-19 pandemic in the regions/areas supported by the project and increase sector competitiveness for future resilience.** This will be achieved by supporting strategic "public goods" types of interventions that increase the competitiveness of groups of actors (SMEs and entrepreneurs in this case) or increase the attractiveness of their sectors and sites for further investment. This will include the continuation of similar types of selected small local infrastructure and human capital investments done under the PIC2-2, such as small works in energy and drinkable water delivery, improvement of key access roads (rural and urban) to local economic clusters, small scale infrastructure to improve access to internet for clusters of businesses,

[41] The National Green Export Review of Madagascar by UNCTAD in 2018 identified vanilla, cocoa, essential oils, coffee, dried beans among other candidates for green export. The project will support actions in targeted value chains that the UNCTAD review identified as relevant to promote green exports. Green products have less impact on the environment than their traditional equivalent. Therefore, a green product variant could, for example, be manufactured from recycled components, be manufactured using renewable energy, and be supplied to the market with less wasteful packaging, among other features.
[42] Investment Climate Reform Project (ICRP) – IFC Project 600607.

and skills development. In addition, the component will also support local actors, including communes, districts and regional governments in planning and coordinating local economic development initiatives, in delivering services and facilitating processes that enhance the competitiveness of the project's selected value chains, in view of increasing attractiveness for later investments through MFD.

42. **Activities and interventions supported under this component have a high potential to contribute to the project's gender and green footprints. Infrastructure activities will include an assessment of how they can contribute to increasing climate mitigation/adaptation, and decreasing environmental impact.** Training and capacity building will include specific modules to provide local communities with the tools and skills to continue and expand this climate impact awareness into other interventions, with a goal of weaving it across all possible interventions, beyond this project (see annex 6). Likewise for gender, interventions will consider gender both from the standpoint of increasing women economic empowerment (tailoring content where needed and facilitating access to training opportunities for women) and caring for decreasing the risk of gender-based violence (GBV) in the targeted regions and especially as a consequence of project interventions (for example, careful analysis of GBV issues for any planned infrastructure interventions).

43. **For the tourism sector, this component will support recovery and enhanced competitiveness of regional tourism destinations.** Together with tourism activities under component 1, it is aligned with key priorities set by the Ministry in charge of tourism, including diversification and increased quality of products, improved access for key regional destinations, and promotion of sector investments. It will build on work carried out under PIC 2.1 and PIC 2.2, as well as the immediate crisis recovery support under PIC2.2 to support the public and private sectors at regional and local levels to: (i) plan, develop, manage and position more diversified and sustainable destinations with higher quality products and services; and (ii) generate greater private investment in tourism facilities and related quality jobs. It will do so by addressing mainly supply-side constraints43 across the tourism ecosystem linked to local public infrastructure and services, product and service diversity and quality, local destination planning and management, value chain gaps, human capital (skills), and digitalization aspects.

44. **This component will continue the geographical focus of PIC2.2 for tourism and begin a progressive expansion into the Eastern Circuit.[44]** In addition to consolidating infrastructure, service, and tourism product investments in the PIC2.2 target regions, early activities will expand to areas that offer logical and market-driven opportunities for strengthening and diversifying circuits. The project will, therefore, initially also work to strengthen the northern part of the Eastern Circuit, including the attractions of the northern section of the Canal des Pangalanes, and linking to the existing PIC pole of Sainte Marie. The area of intervention has been selected due to (i) the potential and diversity of its existing tourism assets and products, (ii) linkage to an existing PIC pole, (iii) ongoing/planned infrastructure investments, (iv) connectivity options that allow for multi-modal circuits (for example, air, road, river) and (iv) the possibility of combining interventions in destinations that appeal to both domestic and international tourists, for increased resilience. Early activities will also include market and feasibility studies for further geographical diversification into the south of the Eastern Circuit, to assess potential for later interventions in this area. This would include the southern section of the Canal and linked attractions/communes, where many of the same characteristics are present but further study is warranted.

[43] Given that Madagascar is still in the early stages of the destination lifecycle, supply-side interventions continue to be critical. Demand-side constraints are also addressed, however, through for instance support to destination promotion at national and regional levels.
[44] The Eastern Circuit refers to several tourism attractions along a corridor starting in the Alaotra Mangoro region, Atsinanana region in the East, Analanjirofo region in the North-East and Vatovavy Fitovinany in the South-East of the country.

45. **For the agribusiness sector, this component will support the recovery of efficient, diversified, and sustainable agribusiness systems in the target regions.** The pandemic has highlighted the importance of sustainability, climate change, and improved competitiveness, not only in the post-COVID context, but also to increase resilience to future shocks. Most notable of these is climate change, to which Madagascar is highly vulnerable (see annex 6). Diversification will be key to decrease market risk for producers and SMEs and to enhance environmental sustainability. Targeting of new markets with high quality standards, however, requires improvements along the value chain, from seeds to the market. Project interventions will aim to strengthen smallholder farmers, associations, and agribusiness SMEs' access to improved technologies and processes[45] and to service providers, thereby increasing their ability to develop more sustainable and resilient activities, to seize market opportunities, and to increase their sales, and thereby their income. The project will support skills development to enable beneficiaries to seize new opportunities and meet new market requirements. The project will also support improved commercialization infrastructure and logistics to enable product aggregation and minimize effects of potential future markets disruptions.

46. **Specifically, PIC3.1. will support initiatives of line ministries in charge of Industry, of Trade and of Agriculture around organic agriculture, aggregation, cooperatives and industrialization.[46]** It will continue support to key high-value crops targeted by the draft PEM that PIC2.2 has begun supporting, including cocoa, marine aquaculture, fruits, ylang-ylang essential oils, vanilla and other spices, honey, and moringa, in target regions, and begin a progressive expansion along the East Coast to ensure sustainability and scale-up of interventions. The project will also look to pilot support to new value chains with growth and high job creation potential. The initial expansion along the East Coast will start with support to clusters of competitive export-oriented firms based around the port of Toamasina. Value chain and market studies will define detailed interventions in this area, as well as the expansion into the southern part of the Canal des Pangalanes. Beyond previous PIC-SOP focus on export-oriented SMEs, PIC3.1 will also focus on the domestic market: "two-thirds of domestic Malagasy firms already sell in both the domestic and export market, using a variety of distribution channels such as retailers, wholesalers and supermarkets".[47] Thus, the project will provide support to local SMEs and agriculture producers to diversify their commercialization channels to include the domestic market with growth potential, helping to increase their resilience.

(i) Sub-component 2.1. Technical support to strengthen the competitiveness of value chains in the target regions (US$19 million equivalent).

2.1.1 Tourism

47. **This sub-component will finance TA, capacity building and equipment at the regional level to support target destination recovery from COVID-19 and improved competitiveness.** Activities will include providing technical assistance to (i) improve management and promotion of tourism sites, including support for regional/local PPD, (ii) carry out value chain analyses to identify critical gaps and opportunities for MSMEs in the new tourism post-COVID context, (iii) carry out studies to inform local regulations and policies that affect tourism, (iv) develop regional tourism strategies that promote, among other aspects, climate resilience and leverage natural capital as a differentiation strategy, building

[45] The project will contribute to the promotion of innovation. Innovation means "technologies or practices that are new to a given society. They are not necessarily new in absolute terms. These technologies or practices are being diffused in that economy or socie ty. This point is important: what is not disseminated and used is not an innovation." World Bank, 2010.
[46] Ministry in charge of Agriculture : Law 2020-003 on Organic Agriculture approved in May 2020, draft Law on Aggregation under preparation; Ministry in charge of Industry and Trade : National Strategy for the Development of Cooperatives, One District One Factory Program.
[47] Madagascar Country Economic Memorandum, 2019.

on lessons learned from local-level sustainability planning exercises under PIC2.2 and other WBG interventions[48]; and to (v) carry out skills development programs and the creation of training opportunities for existing and new workers, including training of local trainers, targeting of often under-served sub-groups (for example, women, artisans, guides and site managers), and promotion of sector reinsertion of former tourism workers, including training to support recovery.[49]

2.1.2 Agribusiness

48. **The sub-component will finance TA, capacity building and equipment to promote market-driven and context-specific technologies, improve practices and climate resilience.** This sub-component will build on and expand the PIC 2.1 and PIC2.2 efforts to improve agriculture production and transformation technologies and processes through collaborative research and development. It is expected that the project will identify research centers, universities, and training centers, and support their linkages with the private sector to promote improved techniques and technologies to increase yield, climate resilience, and improve production processes. Examples of activities include: (i) awareness raising of risk of climate change and/or benefits of adaptation; (ii) capacity building for farmers and community level agro-processors such as cooperatives to improve practices at all stages of the supported value chains; (iii) support research into, and the renewal of, plantation and seed selection to adapt to local agroecological conditions and climate change; (iv) support to the greening of selected agribusiness value chains, for example for the essential oils processing through improved distillation methods using more sustainable energy sources and/or less energy intensity, in a collaborative effort with the Group of Essential Oils exporters of Madagascar; (v) support certification and traceability for higher-value products using digital technologies; and (vi) promoting training curricula to fill key skills gaps in the agribusiness sector including those on food hygiene and safety.

2.1.3 Digital

49. **The sub-component will finance TA, capacity building and equipment (where needed) to strengthen local and regional level capacity to promote adoption of digital technologies in the target sectors.** These activities will be closely coordinated with the other development partner-financed activities in this field[50]. These activities will include (i) pilot interventions in digital technology for tourism, with examples that include online booking and payment, promotion of contactless technology, and the collection of real-time data; and (ii) digital agriculture initiatives that lower barriers to farmers and SMEs' access to upstream and downstream markets, to services, and to information.

(ii) Sub-component 2.2 Strengthening local infrastructure to support the growth of target sectors and business development (US$57 million equivalent).

2.2.1 Tourism

50. **This sub-component will finance equipment and civil works and TA at local and regional levels for improved destination attractiveness, competitiveness and resilience.** Activities will include: (i) investing in/leveraging private investment in small-scale, local infrastructure (for example, air and marine connectivity, urban and rural roads) and services (for example, energy and water supply and access to internet services) to improve the operating environment

[48] For instance, a Strategic Environmental and Social Assessment linked to tourism development being conducted in Nosy Be under PIC2.2, and an IFC study on integration of natural capital and tourism in investment planning for destinations. Depending on on their outcomes, the project will draw on and expand the methodologies established through these exercises.
[49] Design of training interventions will draw on lessons learned through the implementation of training activities under Windows 2 and 4 of the PIC2.2 project's COVID response.
[50] Including the World Bank's PRODIGY project.

for firms and raise service levels for residents and tourists; (ii) upgrading selected attractions that enable development of circuits with existing attractions or previously-supported sites/poles. Improved planning and management of infrastructure, service and tourist attraction-level investments will be supported under sub-component 2.1. Investments will be designed in a climate-informed way (see Annex 6).

2.2.2. Agribusiness

51. **This sub-component will finance TA, equipment, and civil works that facilitate and consolidate the aggregation of production volumes to maintain competitive levels.** Investments in key agrologistics infrastructure can include rehabilitation of key feeder roads, small port handling equipment and facilities (preferably privately managed), warehouse and cold-storage facilities for export of regional agriculture products, as well as equipment and small scale infrastructure to improve access to internet for clusters of agribusinesses. It will scale up similar approaches to the PIC2.2 pilot operation for the High Sambirano road rehabilitation that promotes direct user and private sector operators' contribution to infrastructure maintenance and empower beneficiaries for simple maintenance. Investments will be designed in a climate-informed way (see annex 6).

(iii) Sub-component 2.3. Strengthening local governance to support sectors growth and business development (US$7 million equivalent)

52. **This sub-component will support local governments through a set of mutually reinforcing activities aimed at strengthening the capacity of Decentralized Territorial Local Authorities (DTLA) to catalyze economic development at the local level and to support businesses/local economic activity impacted by the pandemic.** This sub-component will finance TA, capacity building, equipment, and small civil works, building on previous successful experience under PIC 2.1 and 2.2, to (i) enhance the institutional capacity of local governments to improve revenue mobilization and public funds management for infrastructure investments and maintenance, (ii) strengthen the coordination capacity of decentralized technical services to provide hands-on and in time advisory support to DTLA, (iii) elaborate/update regional, intercommunal and commune-level development plans and sectoral investment strategies, (iv) rehabilitate key local government offices and infrastructures to improve service delivery, which will be designed in a climate-informed way (for example through energy efficient lighting and solar power generation); and (v) provide financial and technical support (through targeted grants) for investments in communes or group of communes to promote the local attractiveness and competitiveness of targeted value chains. See annex 6 for climate-informed aspects of support under this sub-component.

(c) Component 3: Supporting SMEs and Entrepreneurship Recovery and Growth in Target Sectors and Target Regions (US$45 million equivalent)

53. **The objective of this component is to strengthen the capabilities and "COVID-19 recovery" growth opportunities of agribusiness, tourism and digital SMEs and entrepreneurs[51] in the project's target regions through the provision of financial and non-financial support.** To do so, the component will provide direct assistance to SMEs and entrepreneurs (sub-component 3.1), building on ongoing implementation of similar programs under PIC2.2. It will also provide indirect support (sub-component 3.2) to firms, through strengthening the quality of the organizations providing support to entrepreneurs and SMEs, including in the Analamanga region for digital SMEs. This component will

[51] Throughout this document, entrepreneurs and start-ups are used to refer to the same concept: individuals with a business idea that needs support (incubation or acceleration) to become a viable and competitive company that can sell its products and services. This can include companies recently established (less than 3 years old). Eligibility criteria for the different stages of companies will be detailed in the Project Implementation Manual.

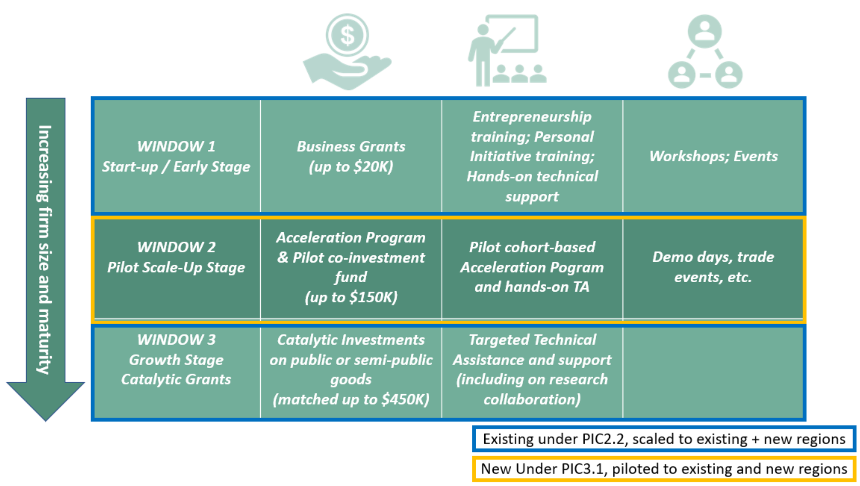
have an explicit gender focus, including through tailored support and specific programs provided to women-led firms. It also aims, through different instruments, to focus on leveraging additional private investment to support firm growth through MFD. Finally, it will also encourage, through targeted calls-for-proposals as well as more generally, climate positive businesses (adaptation, mitigation in existing businesses, as well as green technology solutions) to support a green recovery.

54. **Overall, the component aims to support COVID-19 recovery by addressing three key challenges that hold back SME growth in Madagascar:** (i) weak capacity and support to scale businesses; (ii) very limited access to finance in the key early stages of growth; and (iii) insufficient market access. These constraints disproportionately impact women entrepreneurs. Specific direct support activities are tiered by firm growth stage to address these challenges. An increase in both the number and quality of start-ups and SMEs which are growing is expected by the end of the project, as a result of the interventions supported under this component, as well as an increase in jobs, and private investment leveraged. In addition, an increase in the quality of the various business development service (BDS) providers is expected, including entrepreneurship hubs, incubators and other BDS providers, contributing to overall project sustainability. Further details are included in annex 6.

(i) Sub-component 3.1. Support to Start-ups and SMEs in target sectors and regions (US$ 37 million equivalent)

55. **This sub-component will provide financial support and technical assistance to growth-oriented start-ups, Micro-enterprises, and SMEs** in the tourism, digital and agribusiness sectors in the project's target regions, in order to increase the number of new firms and boost the recovery of existing firms. The financing and associated TA provided to firms will be performance-based and enable firms at each stage of development to achieve key milestones in the recovery, development, acceleration, and growth of their businesses[52].

Figure 4. Schematic overview of sub-component 3.1 support for agribusiness, tourism and digital entrepreneurs and SMEs



52 The performance based implementation will be set-out, as feasible, in the Grant Agreements between the PIU and project Beneficiaries. Further details on these arrangements will also be included in the Project Implementation Manual.

56. **Start-up Early stage (Window 1).** Under the Miary[53] program (window 1), new or existing[54] early-stage **entrepreneurs** that have advanced their business ideas and fill market gaps in the target sectors or propose new digital solutions in the project regions[55] will be able to apply for bundled technical assistance (business training, PI, hands-on technical support, market orientation) and financial support of up to US$20 thousand, for the development and expansion of their businesses. Support provided under this stage will turn their ideas into formal companies with potential for growth, value addition and job creation. Projects will be selected through rigorous calls for proposals on a rolling basis, aligned with government sectoral priorities and other growth opportunities in the target regions (key value chain opportunities, market gaps, digital opportunities, completed for the target regions, climate adaption or mitigation benefits).

57. **Pilot Scale-up stage (Window 2). This window will be piloted as a new window under PIC3.1. It is targeted at slightly more mature SMEs56, identified as having high growth potential, in the project's three target sectors.**

- **Pilot Acceleration program.** SMEs will apply to an acceleration program to receive targeted business acceleration services (support on business model, access to international and national markets, investment readiness, legal, accounting, technical support) and initial funding, of up to US$50 thousand, disbursed by tranche on a signed performance contract, that will aim to strengthen their capabilities to increase sales and productivity, and raise additional private funds. The acceleration program may be sectorally focused (agribusiness, tourism, digital) through separate calls, and run by cohort, with several cohorts expected over project lifecycle. These acceleration programs will be run by a reputable private local and/or international organization(s) with proven experience.
- **Scale-up stage financing mechanism pilot.** In parallel, this window will also seek to leverage additional private investment under an MFD approach for growth stage firms in target sectors, that will be scaled up in subsequent SOP. The project will set aside up to US$5 million for co-investing in high-potential SMEs in the target sectors, including those graduating from the acceleration programs, aiming to fill the existing financing gap in the market.[57] This pilot intervention will look to build a more solid pipeline for enabling/leveraging additional investments in these sectors (from commercial investors and also development finance investors such as IFC). The project will provide grant funding when the company is able to raise funds from third-party investors, such as angels or local funds, up to a cap of US$150 thousand per firm. Decisions on awards to SMEs will be made by independent and professional investment managers to be hired by the project for that specific purpose. Additional details on procedures, evaluation criteria and eligibility for beneficiaries will be established in the Project Implementation Manual.

58. **Growth stage Catalytic Grants (Window 3).** As a continuation and scale-up of the existing program under PIC 2.2, the project will provide, on a competitive basis, catalytic grants to finance subprojects that significantly enhance the competitiveness of targeted value chains in agribusiness and tourism.[58] These subprojects are led by anchor-type firms or organizations that will co-finance[59] investments in public or semi-public goods such as small shared

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[53] Miary means "entrepreneur" in Malagasy.
[54] Less than 3 years, entrepreneur 21-45 years of age at application (per existing PIC 2.2 Miary criteria).
[55] As highlighted in detailed market studies undertaken for each region, which highlight key high-potential areas and existing market gaps.
[56] That are revenue positive.
[57] There is currently a significant "missing middle" of scale up and growth stage financing. This project, through a strong MFD approach, will aim to crowd in additional private sector financing: in 'window 2' through catalyzing the Early Stage VC market, and in Window 3 by providing catalytic grants for public or semi-public goods to unlock private sector funding, spur growth and encourage positive spillover effects significantly beyond the private firm.
[58] Expansion of the instrument to the digital sector will be evaluated during project implementation.
[59] Exact co-financing criteria will be defined in the Grants manuals, but likely to be around 50 percent.

infrastructure for crop storage and processing, implementation of traceability systems, upgrade of skills for local farmer groups that are suppliers to the anchor-firm, for agribusiness subprojects, or development and enhancing of local product and service offerings, in the case of the tourism sector. The catalytic grant financing will be awarded following a rigorous review process with independent evaluations of both technical and financial aspects of the proposals, as well as validation by regional committees and clearance from the World Bank. Proposals will be evaluated, among other things, on their impact on strengthening suppliers (including opportunities to increase their incomes and overall competitiveness) on their potential for employment generation, growth of the company's markets, particularly to new markets internationally, improvement of public-private research collaboration (as relevant), increase in climate change adaptation and mitigation, gender inclusion, as well as technical and operational aspects of the project to enhance overall value chain competitiveness[60]. The implementation of this window will be managed by a dedicated SME and Entrepreneurship team in the Project Implementation Unit (PIU). These catalytic grants are expected to be capped at US$450 thousand per subproject. Funds will be disbursed in tranches, under a performance contract model.

59. **For all three windows, particular emphasis will be placed on gender and climate-smart adaptation and mitigation approaches.** On gender, the project will seek to encourage female applicants (windows 1 and 2), the employment of female 'cadres' (managers), female leadership training, and considerations on women and gender aspects in employment (window 2 and 3), including GBV to address the gender gap and gender specific constratins. It will also explore having a specific female cohort (with adapted hours, female mentors, and additional personal initiative (PI) training). The selection process for all three windows will allocate a certain number of additional points to startups or SMEs with women founders or in executive management positions, and to those that have a minimum of 25 percent of households led by women among suppliers or to those that have at least 30 percent of full-time equivalent jobs created for women. The windows will also allocate additional selection points for activities promoting climate mitigation and/or adaptation in their subprojects, including less carbon-intensive or climate-smart technologies and processes in their sub-projects, such as climate resilient small infrastructure rehabilitation and development, training on adaptation and mitigation, use of carbon positive or carbon neutral energy sources (biodigesters, solar water pumps, solar energy, for example). These will be further detailed in the Grant Implementation Manual. See annex 6 for more details on climate.

(ii) Sub-component 3.2. Strengthening Firm Capabilities through Ecosystem Upgrading (US$8 million equivalent)

60. **This sub-component will seek to increase the broader quality of "supply side" support to SMEs through the nascent entrepreneurship ecosystem, in collaboration with the Ministry in charge of Industry and Commerce, Ministry in charge of Agriculture, the Ministry in charge of Tourism, the Ministry in charge of Telecoms and Digital Development, and EDBM.** These objectives will be carried out through the provision of financial support and technical assistance to develop and strengthen selected entities that provide business and entrepreneurship services and activities to Micro-enterprises, SMEs and Start Ups. This will include capacity building and minor physical upgrading activities targeted at the entrepreneurship ecosystem in the project's target regions, including existing or new entrepreneurship and SME hubs, incubators, and other BDS providers. This will include the digital hub for support organizations in Analamanga region. These actions will further support the entry, growth and expansion of new digital, agribusiness, and tourism companies capable of responding at term to new opportunities, also further consolidating sustainability of the project's interventions and broader impact through supporting the nascent ecosystem, and most especially outreach to the project's target regions.

[60] The full details of eligibility criteria and weighting of proposals will be outlined in the Grants manuals.

61. **To help strengthen the overall nascent entrepreneurship ecosystem, the project will identify and support local institutions, including hubs, regional Chambers of Commerce, universities, and non-governmental organizations (NGOs) that are stimulating entrepreneurship.** This support is expected to help support more people, especially women, set-up their own businesses, and will provide them with the basic business and technical training (including in digital) to help them develop their entrepreneurial ideas into a business. Support to these organizations will include capacity building, TA, small grants for enhancing physical spaces (where appropriate) in a climate-smart way, and some financial support to promote entrepreneurship activities such as hackathons, competitions, demo days, bootcamps, targeted training on entrepreneurship, digital, climate adaptation and mitigation aspects, and networking events. It is expected that up to 8-10 existing or new institutions will be selected competitively during the lifetime of the project, with proposals to be evaluated by specific panels established by the PIU, including the Ministry in charge of trade, industry and handicrafts, and the Ministry in charge of digital development when relevant, which will also include independent specialists in entrepreneurship. The selection criteria for this activity will be agreed upon between the Government and the World Bank and will need to include alignment of proposals with the project objectives and rely on some track record with implementing similar initiatives, including fiduciary performance.

62. **Specific tailored focus will be given to women entrepreneurs and climate-smart initiatives through this support.** The intention will be to incentivize entrepreneurship support organizations to incorporate into the services and assistance they provide relevant gender-related topics such as: (i) personal initiative training; (ii) information sessions to encourage women to enter certain male-dominated sectors and subsectors, such as the digital sector; (iii) dedicated mentorship that provides exposure and/or support (iv) women-focused networking events; (iv) and to incorporate climate-informed approaches and to support green or cleantech businesses, for example companies using enhanced or digital technologies for waste collection and recycling, agribusiness companies using water-and energy efficient processes and sourcing their raw material from certified sustainable sources, among others (See annex 6 for more details).

(d) Component 4. Project Implementation (US$10.0 million equivalent)

63. **This component will finance the PIU and allow it to implement the project, comply with fiduciary rules and the environmental and social framework (ESF), and fulfill monitoring and evaluation (M&E) commitments.** The component will finance, among others: (a) the operation of the PIU with staff based in Antananarivo and in the project's Target Regions; (b) the project's M&E system, including the implementation of evaluation activities for specific project instruments and qualitative aspects (for example, on jobs quality); (c) the preparation and implementation of all ESF processes and documentation; and (d) grants oversight and management.

64. **Citizen engagement, Project Communications, and stakeholder coordination activities will also be financed by this component and managed by the PIU.** These will include (i) the implementation of the stakeholder engagement plan and feedback mechanism to inform project implementation, (ii) implementation of the Grievance mechanism of the project; (iii) targeted communication and dissemination of project activities and results; and (iv) the coordination of stakeholder involvement in project activities.

(e) Component 5. Contingent Emergency Response Component (US$0 million)

65. **A "zero-dollar" contingent emergency response component (CERC) will allow for the reallocation of financing to provide immediate response to an eligible crisis or emergency, when/if needed.** An Emergency Response Manual will be developed for activities under this component, on trigger of the component, detailing streamlined FM, procurement, safeguards, and any other necessary implementation arrangements. In the event the component is

triggered, the Results Framework would be revised through formal restructuring to include appropriate indicators related to the emergency response activities.

C. Project Beneficiaries

66. **The project is expected to benefit the following key stakeholder groups in the Target Regions and sectors.**

67. **Firms:**

- **In tourism:** (i) existing formal and informal MSMEs and start-ups throughout the tourism value chain in the Target Regions will benefit from an enhanced operating environment through improved market access, better public goods provision, better skilled workers and more attractive/competitive tourism products and destinations; and (ii) new formal SMEs and startups throughout the tourism value chain in the Target Regions will benefit from improved sector licensing/regulatory conditions, an improved investment climate, capacity strengthening and direct financing.
- **In agribusiness**: (i) existing formal and informal MSMEs and start-ups, especially exporters and processors of the targeted value chains, will benefit from improved market access, lower costs from improved logistics, higher value products from better value chain organization and quality control, availability of innovation and skilled workers; (ii) new or previously growth-constrained agribusiness SMEs and startups in the agribusiness value chains, will benefit from improved competition and licensing conditions, capacity strengthening, access to finance, access to larger and more diversified markets and enhanced technologies; (iii) from greater resilience to climate change through adaptation of technologies and techniques to incorporate mitigation and adaptation aspects.
- **In Digital:** Digital SMEs and start-ups will benefit from strengthened technical services, early stage and seed financing and dedicated support programs
- **New businesses and (women) entrepreneurs** will benefit directly from the project, especially youth and women in the project's target region. They will benefit from: (i) a stronger quality of business services and other support aimed at strengthening capabilities, with impact on revenue and productivity (ii) funding allowing them to grow and develop their businesses. Individuals, and most notably women, will also directly benefit from receiving relevant training through components 3.1 and 3.2, that will increase their economic opportunities and earnings.

68. **Workers and farmers.** Workers and farmers in the Target Regions will benefit from increased revenues from higher quality products, increased productivity, and the creation of new opportunities (for example, new hotel investments, new value chain developments/formalization), and lower risks from diversification and higher market positioning that help hedge against global market fluctuations. Formalization drives and requirements for beneficiary firms will ensure social safety net coverage for employees. Women's labor force participation rate is high in Madagascar and women are over-represented in tourism and agriculture but tend to occupy low-paying positions. Capacity-building programs and extension services under the project will ensure women's access to training and opportunities for positions of greater responsibility and leadership, reducing gender pay gaps.

69. **Key sectoral institutions.** The project is directly supporting such institutions, which can be public, public-private or private, in both the tourism and agribusiness and digital sectors. In agribusiness, this includes helping previously supported national and regional multi-stakeholder platforms (for example, in cocoa, ylang-ylang essential oils, vanilla); supporting or strengthening institutions in other value chains to be supported by the project; supporting key ministries involved in the agribusiness industry development, and public and private research and training centers and extension service providers. In tourism, this includes supporting the key Ministries linked to tourism development and their regional representations where relevant; supporting the sustainability and impact of national associations of

tourism operators, as well as related PPD platforms; and the national and regional bodies responsible for destination promotion. In digital, this can include strengthening and capacity building of associations grouping firms such as the BPO/Knowledge Process Outsourcing (KPO) sector, support to key ministries including the Ministry in charge of Post, Telecoms and Digital Development, the Ministry in charge of Commerce Industry and Handicrafts overseeing entrepreneurship.

70. **The broader population.** Populations in the Target Regions will benefit indirectly from improved access to infrastructure and services as well as broader effects from a more dynamic and stimulated local economy, positive spillovers from improved electricity access and irrigation that may result from component 3 window 3 activities. They will also benefit indirectly from the creation of higher quality, both low-skilled and higher-skilled service jobs through new sectoral activities, contributing to greater social inclusion.

71. **The government and decentralized institutions.** These institutions will benefit from strengthened capacity, incremental tax revenues, and export revenues.

D. Gender

The gender gap

72. **More can be done to increase the *quality* of women's economic participation in Madagascar.** While women's labor force participation in Madagascar (both in the formal and informal sectors) is relatively high (86 percent for women, versus 90 percent for men), compared to peer countries, the quality of that participation makes evident challenges in gender equality in the country.[61] Women are more present in lower value-added sectors[62], under-represented in the formal economy (8 percent women in the formal sector versus 13 percent men) with a wage pay gap of 17 percent in comparison to men, and are less likely to lead a company (28 percent of firms are female-led)[63], particularly if it is a medium or large firm. Female-owned informal businesses in Madagascar also exhibit a performance gap of 26 percent compared to their male counterparts. These differences in economic participation and performance are likely explained by the greater constraints women face to finance, own and most especially lead a firm[64], including gaps vis-à-vis men in terms of technical, cognitive, and non-cognitive skills, lack of capital[65], and smaller and more capital-poor social networks.

73. **The COVID-19 pandemic may be exacerbating these differences.** Impacts of COVID-19 have been disproportionate on women: a Facebook business survey in Sub-Saharan Africa implemented over the second half of 2020, shows that female-owned firms have been at least seven percentage points more likely to be closed due to COVID-19.[66] When compounded by their greater likelihood of operating in the informal sector, and their lower access to credit[67]; it can be expected that women-owned firms will thus be less equipped to cope with exogenous shocks such as the COVID-19 pandemic.

[61] Madagascar CEM, 2020.
[62] Nordman and Vaillant (2013). Inputs, Gender Roles or Sharing Norms? Assessing the Gender Performance Gap among Informal Entrepreneurs in Madagascar. Université Paris-Dauphine, IRD, DIAL.
[63] Madagascar CPSD, forthcoming.
[64] Madagsacar CPSD, forthcoming.
[65] There is some evidence that women may be self-selecting into sectors that require less start-up capital, contributing to occupational segregation. Nordman and Vaillant.
[66] Facebook Data for Good, Small Business Report 2020.
[67] A 2016 Finscope survey found that 41 percent of adults in Madagascar are fully financially excluded (equally, 41 percent of fem ales),

Project activities to close the gap

74. **The project design aims to integrate a gender lens and support women-owned and led SMEs to recovery and women entrepreneurs to growth.** The main gender gap identified in the context of the project is female formal labor participation and more specifically management and leadership roles, with the project aiming to close the gap in female leadership roles (see measurement section below). Thus, the project aims to focus on resilient recovery and growth of SMEs, and support to new entrepreneurs, especially women-owned and women-led companies in all three project sectors. The project will address this gap faced by women through the following interventions:

a. **Personal Initiative training**, that has been shown to have large impacts especially for women-owned/led businesses, and across the spectrum of types of firms owned by women.[68]
b. **Gender-oriented interventions** including a MIARY (startup program – window 1) and an acceleration program (Window 2) integrating a gender-centered design (gender considered in the planning of mentoring, networking, and hours of training).
c. **Gender-sensitive screening** for all proposals under the project's component 3, including for women-led firms and the hiring of women in management positions.
d. Interventions under the project will consider mechanisms of creating awareness about risks of **GBV.** Any small civil works or where applicable other interventions such as in tourism will follow the World Bank's guidelines to minimize and mitigate risks.

75. **Indicators that measure success:** Gender and gender disaggregated data will be collected. Specifically in relation to the gender gap identified, the project will aim to increase the percentage of women-owned and/or women-led firms, from baseline of 40.5 percent to 50 percent. In addition to monitoring and evaluation indicators below, a potential impact evaluation will focus on understanding any differences in business growth for male and female-owned enterprises that participate in the project.

Table 3. Gender and Gender-disaggregated Indicators

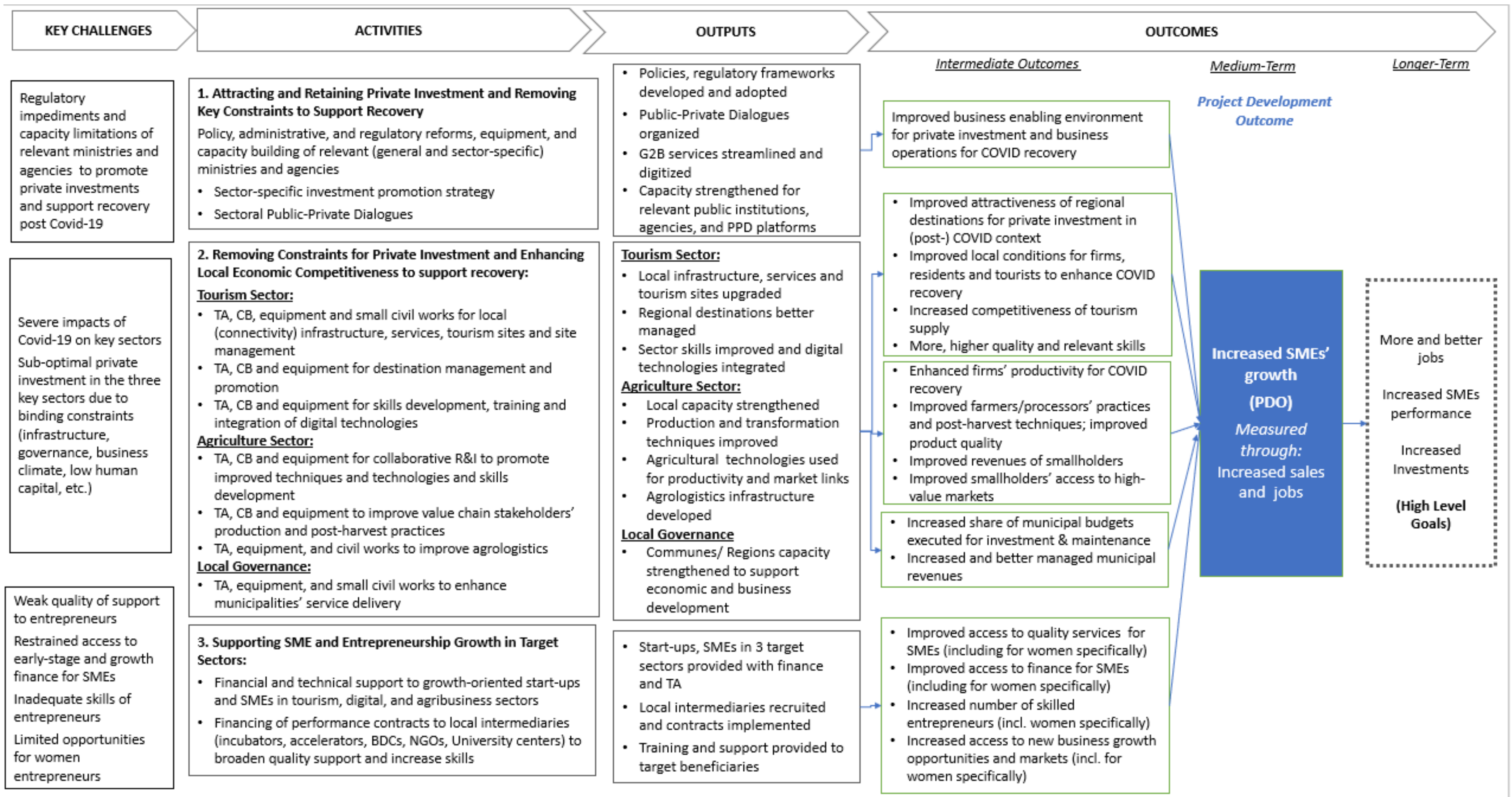
Indicator Name	Definition	End Target
PDO: Change in revenue growth of beneficiary firms in Target Regions – Of which for women-owned and/or women-led firms (percentage)	Percentage change in sales revenue of project-supported businesses of which percentage of women-led or women-owned firms. Data will be collected yearly from firms financial statements, subject to monitoring and verification by the PIU,	20
PDO: New jobs created by supported firms in Target Regions (Number) - Of which for women	Jobs are defined as formal employment by supported firms as reported by employers to the CNaPS, of which for women. This is the number of new workers entering the formal sector in the targeted regions per year in the project target sectors as declared by employers. Targets are cumulative.	7,500 (Total) 3,000 (women)
Women-led or women-owned formal businesses created in the target regions (percentage)	**Flow data of registered formal sector businesses at INSTAT/EDBM/DRI including sole proprietorships reported for the targeted regions. Targets are cumulative**	**50**
Individuals trained by public and private training service providers supported by project (Number) - Of which females	Number of persons trained on business, PI, digital skills by service providers receiving funding/support from project.	2,800 (Total) 1,500 (women)
Firms supported on business plan expansion (Number) - Of which female owned or led businesses	Number of female-led firms in target sectors that have received an incentive package from the project against their	30 (Total) 12 (women)

without access to formal or informal financial services. Although access to finance, and notably mobile money has expanded, with for example the support of the Madagascar Financial Inclusion Project, Madagascar ranks at 132nd place out of 190 countries in terms of "Getting Credit" in the latest World Bank Doing Business.

[68] Campos, Frese, Goldstein, Iacovone, Johnson, McKenzie, and Mensmann. 2018. Is personal initiative training a substitute or complement to the existing human capital of women? Results from a randomized trial in Togo. AEA Papers and Proceedings 2018/05.

Indicator Name	Definition	End Target
	expansion plansfocused on eligible expenditures (as per Project Implementation Manual)	
Firms benefiting from acceleration program (Number) - Of which are female owned or led firms	Number of female-led target sector firms that have benefited from acceleration program	150 (Total) 40 (women)

E. Results Chain



F. Rationale for Bank Involvement and Role of Partners

76. **The World Bank will bring to the GoM its breadth and depth of experience, expertise, and best practices in tourism, agribusiness, and digital sectors, as well as investment climate support.** In doing so, World Bank support will provide integrated solutions to the key market failures and constraints holding back the target sectors' competitiveness and will build the capacity of the government and the private sector, focusing on firm-level capabilities and constraints to growth, to pursue these policies and approaches going forward. Increased IFC support and investment can also be leveraged.

77. **The interventions aim to co-finance either public goods (small works such as roads, water access, sanitation) or semi-public goods (for example, support to certification infrastructure and services), with the intent to leverage additional private financing through an MFD approach.** Interventions also aim to resolve market failures (coordination of stakeholders for existing value chains or creation of new markets for the three target sectors, risk sharing, market information failures, and so on) by improving government regulations and capacity, which all require public intervention. Overall, public sector financing and technical assistance will address firm capabilities, critical transaction costs and risks that lead to sub-optimal private sector investments. By addressing these constraints and risk factors, the project will create a conducive enabling environment for private sector investments in all three sectors, which have high potential to reduce poverty, drive growth and create jobs, per the recent CPSD and CEM analytical insights.

G. Lessons Learned and Reflected in the Project Design

78. **Previous PIC projects Implementation Completion and Results Reports (ICRRs) (PIC1, PIC2.1)[69] have demonstrated that multi-faceted and spatially concentrated interventions with a focus on improving the overall competitiveness of a region are possible and can have an important impact, even in a context of fragility and low capacity.** Several factors contribute to enabling this impact, some of which are specific to Madagascar's political and economic context, and some of which can be translated to other operations or contexts. The design of the current project integrates many of these factors and will support additional and complementary investments that build on previous PIC projects, while utilizing existing and proven implementation arrangements to achieve results.

Overall project approach

79. **On COVID-19 response and recovery specifically, initial learnings from PIC 2.2 Additional Financing (AF) COVID-19 emergency response program highlight the importance of strong communications to beneficiaries:** The launch of activities financed through the activation of the CERC in response to COVID-19, has underlined the importance of adopting a strong communication strategy in order to reach relevant beneficiaries, manage expectation, and reduce the risk of contestation from other groups/stakeholders. The current project seeks to improve the overall project communication on activities and reforms which will be supported.

80. **A long-term approach.** The PIC projects have shown that transformation takes time. A longer-term approach to development impact (for example, through a new SOP), particularly in complex and fragile contexts such as that of Madagascar, and particularly in projects with an integrated approach, has been shown to be effective. Given the current pandemic and crisis context, a long-term approach is expected to be even more important, as interventions evolve from focusing on short-term recovery to medium-term recovery and eventual expansion. Experience has also shown,

[69] Report Nos. ICR3490 (PIC 1) and ICR5188 (PIC 2)

however, the need for rapid demonstration effects (for example, early infrastructure investments) to generate early buy-in.

81. **Flexibility of activities.** The PIC series of projects have demonstrated the importance of building flexibility into project design to be able to attend to and address evolving opportunities or challenges during implementation. Such flexibility will be even more critical given the economic uncertainty stemming from the pandemic. For this reason, this document clearly identifies the project's goals, principles of intervention and initial focus and targets, but does not extend to a complete and highly detailed prescription of all project activities.

82. **Sectoral job creation.** The **targeting** of specific sectors for job creation in previous projects has ensured a realistic scope and facilitated measurement of results. In addition, targeting of sectors with clear growth potential in targeted regions has set the stage for generation of impacts. For this reason, the project will continue to target job creation in the tourism and agribusiness sectors specifically, while adding the digital sector.

83. **Local governance for sustainability of impact:** A key success factor of the PIC series, based on findings from ICRRs, has been the strengthening of commune-/regional-level capacities in targeted regions to (i) deliver better and more efficient services, and (ii) to ensure sustainability of sectoral investments and procedures put in place by the project which have in turn contributed to upgraded service delivery for citizens and private sector alike, as well as improving the population's trust in local government, which in turn created a greater level of accountability and transparency. Sub-component 2.3 is therefore dedicated to strengthening local governance to support growth in the project's target sectors.

Implementation arrangements

84. **Competent implementation unit, strong cross-ministerial coordination and local ownership of project activities.** In the PIC series, this strong coordination and local ownership has come from a well-staffed and skilled PIU with a strong presence in the project's targeted regions for continuous engagement, ensuring community buy-in, and close supervision; while also coordinating closely with multiple ministries across regional interventions. This coordination has been strengthened during the current PIC2.2 project by a stronger group of focal points from the ministries involved. While the PIU for this project will continue to play this role, supporting project coordination and communication between the Government and the World Bank, an increasing role will be played by the ministry focal points in project coordination and supervision. In addition, and to further strengthen project sustainability, a strategy to transfer more implementation responsibilities to the government structures (ministries or agencies) will be designed by the Project Mid-Term Review. (See Implementation Arrangements section for more details)

Sectoral aspects

85. **For the tourism sector:**

- **National-level PPD is necessary to ensure a coordinated tourism sector vision.** Government priorities for sector development and regulation must be aligned with the reality and goals of the private sector, to ensure effectiveness of reforms and strategies. Tourism PPD has been strengthened through PIC support to the establishment/operation of the *Confederation du Tourisme de Madagascar*, for instance, but will require continued intervention.
- **A dual approach to tourism investment promotion can help address the interests of multiple stakeholders.** Previous PIC SOP support to tourism investment promotion has demonstrated the value of approaching

investment promotion from both ends of the process: (i) support to public sector prioritization and general promotion of investment zones, and (ii) a tailored, firm-based approach, directly supporting private sector actors in finding opportunities and identifying potential partners. Given the expected global shift in tourism investment stemming from COVID-19, a multi-pronged approach may be particularly important.

- **An integrated, spatial approach to local infrastructure and service investments significantly strengthens the tourism supply, benefits local populations and improves the tourism investment climate.** Investments under previous SOP phases, for instance, in water supply, have directly reduced costs and improved product quality for tourism operators, improved attractiveness for new operators/investments, and directly improved living conditions for local populations. Effective maintenance of these investments, however, is critical, and innovative models should be further explored.

86. **For the agribusiness sector:**

- **PPD is time-consuming and challenging but is crucial to improve the enabling environment of the agribusiness value chains, and facilitate business entry and operation.** For instance, PIC2.2. support to a multi-stakeholder platform, such as the National Cocoa Council, has proven efficient to develop a common and market-based vision for cocoa value chain development, improve the regulatory framework and upgrade quality infrastructure. The Cocoa National Plan of Madagascar has been developed under a participatory approach and has been validated by the International Cocoa Organization (ICCO). The PIC3-1 will continue supporting PPD and multi-stakeholder platforms in targeted value chains along with activities to raise the productivity and increasing the efficiency of agricultural value chains players.
- **Transport and logistics development crucial for access to markets.** (a) roads, (b) Low storage capacity during COVID-crisis have impacted cash-constrained producers who were obliged to sell at lower prices, and also impacted exporters who have sometimes incurred higher storage loss due to storage facility deficiencies
- **Technology transfer and capacity building to improve productivity and competitiveness of smallholders and firms alike.** Support to farmers' access to inputs and capacity building is essential to ensure higher value-addition in the sector.

Entrepreneurship

87. **Component 3 of the project seeks to address weak firm capabilities and very limited access to finance in the key early stages of growth, which have been shown to have a positive association with firm outcomes.** Firm capabilities are important for a business to be successful. Training programs such as personal initiative skills, marketing, business consulting, technical training, and finance training have some demonstrated impact on firm growth. However, firms in developing countries rarely have access to high-quality training content. Moreover, customization of support is key in delivering impactful programs. Likewise, improved access to capital and finance generally have positive effects on firm growth and employment, as have been seen in previous PIC iterations at both the start-up and growth stages of firm development. This component thus takes lessons from PIC 2.1 pilot and 2.2 implementation to further strengthen and scale up support to both access to finance and firm support to enhance firm growth and productivity at different stages of firm development.

88. **The SME support and grant activities under this project incorporate criteria validated by the Independent Evaluation Group (IEG) and other World Bank reviews, analytical work, and operational projects.**[70] IEG's evaluation[71] underscores the importance of firm size criteria, sustained engagement with beneficiaries, and the importance of incorporating sustainability and monitoring into the design. A World Bank review of matching grant schemes[72] highlights the importance of similar elements, which have been incorporated into the project design. The team also notably draws on recent analytical work on firm capabilities[73] and the Jobs and Economic Transformation agenda, to focus activities under component 1 on improving the business environment, thus reducing entry and exit friction and also providing greater certainty to investors; and under components 2 and 3 on promoting the adoption of efficiency-enhancing technologies. Component 3 notably focuses on strengthening firm capabilities by improving managerial skills through training and promoting innovation through technical support to raise firm level productivity and allow those firms to attract investment and grow.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

89. The **project** will be implemented through the institutional arrangements described below, building on lessons learned from implementation of PIC 1 and the previous SOP (PIC 2.1 and PIC2.2).

90. **Ministry of Economy and Finance.** The Borrower will be the Republic of Madagascar, represented by the Ministry in charge of Economy and Finance. 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.

91. **Project Steering Committee.** The Ministry in charge of Economy and Finance will chair the Project Steering Committee and the PIU will report to the Minister in charge of Economy and Finance. Given the multi-sectoral approach and multi-region scope of the project, the project will be overseen by a Project Steering Committee. The Steering Committee is charged with defining the strategic orientation of the project and mobilizing technical and financing partners as well as Ministries, public sector entities and the private sector in terms of technical and financial support to the project. The Steering Committee will meet at least once every 12 months to perform a strategic review of Project Progress Reports, reviewing yearly reports, annual work plans and budgets and provide oversight and support for effective project implementation, including Project grants. The Committee will consist of high-level representatives of relevant Ministries in charge of Agriculture and rural development; Tourism; Commerce; Telecoms, Post and Digital Development; Spatial Planning, Public Works; Decentralization, and Water, that will liaise with their respective Minister on a regular basis.

92. **The Technical Committee.** The Technical Committee, comprising of focal points designated from each of the Technical Implementing Ministries and Agencies as represented in the project's steering committee, will be led by the Ministry in charge of Economy and Finance. The project's technical committee focal points will meet regularly with the PIU and the World Bank to review, discuss and address issues related to implementation progress and achievement of

[70] Operational projects, including the recent Mozambique Economic Linkages for Diversification Project (EL4D - P171664).
[71] The Big Business of Small Enterprises, IEG report No. IEG93485
[72] How to make grants a better match for private sector development, Hristova, Diana and Antoine Coste, 2016, World Bank.
[73] Strengthening World Bank SME-Support Interventions: Operational Guidance Document, DRM meeting draft, October 2020.

results. The focal points play a key role in ensuring coordination of project activities, including support to the process of extension of Project Grants and complement the role of the PIU.

93. **The project PIU, based in Antananarivo, whose core staff will remain in place overseeing the continued execution of PIC2.2, will reinforce their team to be supported at the technical level by expert advisors, and will be responsible for project implementation and management of all components.** The PIU will be responsible for overseeing the flow of project funds for each component and sub-component, M&E, management of the various windows of SME and Entrepreneurship support (through reinforced and dedicated staff), and ensuring project reporting between agencies, the PIU and the Ministry in charge of Economy and Finance. The PIU will report regularly to and seek guidance from the Steering Committee on strategic aspects of the project.

94. The PIU **staff** in Diana, Atsimo-Andrefana, Anosy, Sainte Marie, and for the East Coast, consisting of specialists in the fields covered by the project in each region will act as regional focal points, overseeing implementation and leading and reporting on dialogue with local stakeholders. The Analamanga region will be covered by the central PIU (based in Antananarivo).

95. **SME and Entrepreneurship activities.** The PIU will appoint and reinforce, where needed, dedicated technical as well as operational staff to coordinate and manage the implementation of the grant activities for SMEs, start-ups and to support entrepreneurship centers. Details of staff profile and responsibilities are in the PIM, which was approved by the World Bank in May 2021.

96. The **Regional Validation Committees** (*Comités de Validation Régionaux*) ensure the coherence of the entrepreneurship and SME program within the regional and national economic context and priorities and maximize transparency in the screening and selection of applications. The Committees will be responsible for reviewing and validating recommendations on grant proposals for sub-component 2.3, and Windows 1 and 3 under sub-component 3.1.

97. **Project Implementation Manual (PIM).** The PIM explains the processes, roles, and responsibilities of all relevant stakeholders and it remains a living document, which can be adjusted as needed during project implementation with the written approval of the World Bank. The key areas include basic project management, institutional responsibilities, financial procedures and management of fiduciary responsibilities, staff selection and management, results M&E, risk assessment and mitigations, environmental and social safeguards, and any other specific reporting requirements imposed by the World Bank. The PIM presents the guidelines on financial and administrative policies and procedures for managers, administrators, staff, and consultants. The implementation of investment grants to communes or intercommunes (component 2.3), and windows 1, 2 and 3 under component 3.1 will be regulated by specific grants manuals chapters, which is part of the PIM. These grant manuals will include, among other things, description of grant selection criteria, eligibility, evaluation and processes for its implementation. Inclusion of specific grant manuals chapters for grants to SMEs and to BDS providers under component 3 will be a disbursement condition[74]. Should the CERC be triggered, the Recipient will prepare a separate CERC manual.

98. **Implementation transition.** The project will also pursue a transition in project implementation responsibilities from the current PIU structure that reports to the Ministry of Economy and Finance, to one where more implementation responsibilities are taken by existing (or new ones, if needed) government structures (ministries or agencies). It is expected that this transition will be discussed and planned between the GoM and the World Bank during the first 2

[74] Since these are new activities, new grant manuals need to be drafted and approved in the PIM, thus the disbursment condition.

years of implementation. By the mid-term review project assessment, a concrete strategy for this transition should be agreed on by the GoM and the World Bank, together with an action plan that will then be implemented during the remainder of project implementation. An important aspect that will need to be considered is how to ensure continued strong coordination across ministries and agencies, and with the private sector, which represents a key feature of the success of previous PIC projects as per the Implementation Completion and Results Reports[75].

99. **The project will continue to strengthen local and national government implementation capacity**. In order to strengthen longer-term project sustainability and prepare the transfer of implementation and supervision responsibilities, the project will work to reinforce project supervision and technical capacities in the Ministries and related agencies. Particular focus will be given to improve capacity of the government to turn policy objectives for private sector development into programs that can reach the target populations and have the desired impact.

B. Results Monitoring and Evaluation Arrangements

100. **The PIU will have the primary responsibility for establishing the Results M&E system and coordinating all of the project's Results measurement and evaluation activities.** Results M&E system is based on the Results Framework, which has been elaborated building on the logic of the theory of change into output and outcome indicators detailed in section VII. The planned arrangements reflect the Borrower's strong institutional capacity and address issues related to staffing, accountability, equipment, skills, and budget required to carry out the M&E function. A PIC 3.1 M&E Specialist within the PIU will be responsible for gathering data, analyzing and reporting it, and using the information to inform implementation. The M&E specialist will be supported by M&E focal points in each of the regional PIU offices. Data sources will include a mix of primary data collection and secondary data from relevant government agencies. Detailed indicators have been established and will be reported along with the full results framework indicators updated at each ISR. Data sources will include a mix of primary data collection and secondary data from relevant government agencies. The M&E function is budgeted for in component 4.

101. **The World Bank team will advise the PIU and assess the M&E system to ensure arrangements are adequate for monitoring results during implementation.** The World Bank team will coordinate closely with the PIU to take proactive measures if needed to enhance the project's likelihood of meeting objectives. Regular joint implementation support missions will aid in monitoring the status of activities and verifying the validity of data reported by the PIU. A mid-term review of the project will further assess project performance and integrate lessons learned in the second half of the project. An ICRR will be undertaken after completion of the project. Rigorous evaluations of selected interventions (and notably those for component 3) will be an integral part of the project.

102. **In addition to the biannual progress reports, the PIU, in coordination with the line ministries, will also organize an annual public event to report on project results, including both technical and financial informatio n.** This will allow for the Government and the PIU to not only report and inform the public on the use of public resources, but also to receive feedback and comments from a wide public. Details for this event will be included in the PIM. These result will also be made available online in the project's website.

C. Sustainability

103. **The sustainability of the project will be ensured by several factors:** (i) government's ownership and commitment to the regional development agenda and sectoral priorities; (ii) consultations with relevant stakeholders

[75] For PIC1: ICR00003490; for PIC2.1: ICR00005188.

including the government, private sector, business associations, during project preparation to ensure that the proposed project supports key binding constraints in the development of these sectors; (iii) strengthening of institutional and technical capacities of government at both the national and sub-national level to enhance planning, management, stakeholder engagement and ownership, which in turn can improve service delivery and sustainability of project outcomes; (iv) staged long-term approach to project design, following both on previous SOPs and initiating a new series, which continues to support the investments and reform momentum; (v) both direct and indirect interventions to support SMEs benefiting from the interventions, which will ensure increased resilience and results sustained beyond the project life; (vi) for direct support to firms, the focus on both firm capabilities and finance for growth, and most especially for window 3, the focus on public and semi-public good investments of the private projects will ensure sustainability beyond the projet life; (vii) business environment reforms that will last beyond project's implementation; and (viii) a strong and capable PIU ensuring strong cross ministerial coordination to enhance project effectiveness, together with capacity building of project supervision and technical capacities in key Ministries and agencies.

D. Citizen Engagement

104. Outreach and Inclusion. Citizen engagement is embedded in the project design through proactive, two-way mechanisms and will continue throughout the life cycle of the project. This will help ensure that beneficiaries fully benefit from project activities and provide feedback to the design and rollout of the project. Before PIC3.1 activities begin, consultations, through focused group discussions and/or surveys, will be conducted to solicit feedback on how to best communicate and implement the activities in the way that will help targeted beneficiaries to fully participate. The communication strategy to be adapted and implemented, learning also from previous PICs, will ensure beneficiaries receive adequate information about the project and are aware of how and where to obtain further information about the project. Citizen engagement mechanisms will build on existing strong practices for outreach and engagement developed by the PIU through previous PICs, such as in-person information sessions in the target regions, web platforms, and social media. To mitigate potential risks and address received grievances, a Grievance Redress Mechanism (GRM) will help address feedback, inquiries, complaints and/or concerns.

105. Beneficiary Feedback. A survey to collect feedback from beneficiaries will be put in place, focused on component 3 SME and entrepreneur grantees, and conducted annually, with results reported and implementation adjusted accordingly. An institutionalized GRM will complement citizen engagement activities to address inquiries or concerns, mitigate potential risks and address received grievances. The project will enable different channels for grievances such as email, direct, telephone, and social networks to ensure easy access to the service. The two beneficiary feedback indicators used for the project are (i) a citizen engagement indicator on grant beneficiaries to capture the percentage of beneficiaries (with gender disaggregation) reporting satisfaction with the services and support provided (including ease of access, quality, process, disclosure, responsiveness of needs, and so on) and (ii) a GRM indicator to ensure grievances are being collected and addressed. The result of these indicators will help the project effectively close any feedback loops with beneficiaries with the aim of serving beneficiaries better. The PIM details the design and implementation processes/ procedures of all citizen engagement mechanisms, including the staffing and budget to implement them.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis

106. **As part of project preparation, an economic and financial analysis (EFA) has been conducted for the project to determine the value of the anticipated benefits relative to the costs associated with this project.** The Project Net Present Value (NPV) is estimated at US$9.8 million at a 15 percent discount rate[76], and the Economic Rate of Return (ERR) at 18 percent. Details on the analysis and calculations are provided in annex 2.

Rationale for Public Intervention

107. **Project design follows a MFD approach, by determining systematically the possibility to use private financing instead of public to realize the project's objectives.** Essentially, public activities financed by the project address constraints that currently hinder or reduce private financing; as such, unlocking these constraints to enable an influx of private financing. For example, the project tackles key regulatory obstacles to private investment of SMEs in the agribusiness and tourism sectors, but also offers the possibility for additional transactional support to the government to resolve coordination and information failures that may also prevent private financing to be mobilized for more strategic investments. Mechanisms included in the project are designed to: (i) increase awareness and attractiveness of potential investments and support de-risking of private investments; and (ii) address recovery needs from the COVID-19 pandemic, especially in the tourism and agribusiness sectors.

B. Fiduciary

Financial Management

108. **Overall, the financial management system of the designated PIU was assessed to be adequate subject to the implementation of the defined mitigations measures.** The FM residual risk is deemed moderate. The assessment was conducted in the PIU currently implementing the Madagascar Integrated Growth Poles and Corridor SOP-Phase 2 (PIC 2.2)[77] as well as the preceding Series of Project (SOP) PIC1. Considering the substantial experience of the PIU built on the implementation of the previous SOPs of PIC and the high level of adherence with the FM requirements throughout the implementation of the successive projects, the residual FM risk is rated Moderate.

109. **To further strengthen the existing arrangements within the PIU, the following additional measures shall be put in place for the implementation of this project:** (i) additional FM staff will be recruited recruited no later than two months after the project effectiveness, given the increased workload as well as the extended zone of intervention arising from this financing, (ii) the PIM will be updated to incorporate procedures for activities and reporting arrangements related to PIC3.1, (iii) a segregated designated account will be opened at the Central Bank to receive the financing proceeds.

[76] Discount rate: This is based on the risk-adjusted opportunity cost of capital for World Bank financing in Madagascar.

[77] P164536 PIC 2.2 Madagascar Integrated Growth Poles and Corridor SOP-2, IDA 63150 effective in May 2019 and closing in December 2023, US$70 million, disbursed at 58 percent. IDA Credit 68170, US$30 million (Additional Financing), not yet disbursing, no withdrawal shall be made on the AF until full disbursement of the funds under the IDA 63150.

110. **The FM assessment was carried out in March 2021 by the World Bank to evaluate the adequacy of FM arrangements to support the project's implementation.** The assessment was carried out in accordance with the Directives and Policy for IPFs issued on September 30, 2018 and the World Bank Guidance on FM in World Bank Investment Project Financing Operations issued on February 10, 2017. The objective of the assessment was to confirm whether the FM arrangements in place are acceptable. The assessment considered the degree to which: (a) reasonable records are maintained and financial reports produced and disseminated for decision-making, management and reporting; (b) funds are available to finance the project; (c) there are reasonable controls over project funds; and (d) adequate audit arrangements are in place. The assessment builds significantly on the World Bank's knowledge of country FM systems and requirements, as well as the experience and performance of implementing entities through its involvement in other World Bank-financed operations.

Procurement

111. **The project procurement risk is moderate.** The PIU has experience with the World Bank's new procurement framework. The project will address any procurement capacity gaps by training the PIU's procurement officers, who have already been involved in the implementation of the preceeding similar Project. The World Bank procurement team will continue to provide coaching and continuous hands-on support to the PIU.

112. **Procurement under the project will be guided** (i) by the Procurement Regulations for Investment Project FInancing for Borrowers' dated July 1, 2016, (Procurement Regulations) and its later updates: November 2017, August 2018 and November 2020; and (ii) by the World Bank's Anti-Corruption Guidelines: 'Guidelines on Preventing and Combatting Fraud and Corruption' revised as of July 1, 2016, as well as provisions stipulated in the Financing Agreement.

113. **All goods and non-consulting services will be procured in accordance with the requirements set forth or referred to in Section VI of the Procurement Regulations.** Approved Selection Methods: Goods, Works and Non-Consulting Services of the Procurement Regulations mentioned above. All consulting services will be procured in accordance with the requirements set forth or referred to in Section VII. Approved Selection Methods: Consulting Services of the Procurement Regulations, as well as according to the Project Procurement Strategy for Development (PPSD) and the procurement plan approved by the World Bank.

114. **With the World Bank's guidance and support, the PPSD was developed during project preparation. A brief summary of the PPSD is provided in Annex 1.**

115. **The PPSD and the project-level procurement plan covering the first 12 to 18 months of project implementation was submitted and approved by the World Bank before project negotiation.** The procurement plan specifies for each contract (a) a brief description of the activities/contract, (b) the selection methods and the market approach options to be applied, (c) the estimated cost, (d) time schedules, (e) the World Bank's review requirements, and (f) any other relevant procurement information. Any updates of the procurement plan shall be submitted for the World Bank's approval with the corresponding update in the PPSD. The project will be using the World Bank's online procurement planning and tracking tools, Systematic Tracking of Exchanges in Procurement (STEP), to prepare, clear, and update its procurement plan and to carry out all procurement transactions.

C. Legal Operational Policies

	Triggered?

Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

D. Environmental and Social

116. **The environmental and social risk classification is substantial. .** The relevant standards that have been identified for the project are: ESS1: Assessment and Management of Environmental and Social Risks and Impacts; ESS2:Labor and Working Conditions; ESS3: Resource Efficiency and Pollution Prevention and Management; ESS4: Community Health and Safety; ESS5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement; ESS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources; ESS8: Cultural heritage ESS10: Stakeholder Engagement and Information Disclosure.

117. **Environmental risks and impact**. It is expected that the project activities will essentially have positive socio-economic impacts, create short-term employment opportunities. Based on the project activities, the potential adverse risks and impacts on human populations and/or the environment are not likely to be significant and will be site specific.

118. **Social risks and impact.** The project will entail employment of labor for small civil works in energy and water delivery, improvement of key access roads (rural and urban) to local economic clusters (component 2). The labor force associated with each cluster is likely to be substantial with a significant potential risk related to occupational health and safety (risk of transmission of diseases such as STDs/HIV , as well as the transmission and propagation of COVID-19), working conditions and grievance management for laborers (labor safety and health conditions, fair treatment and discrimination, protection of vulnerable workers) especially those employed by subcontractors, and risks of Sexual Exploitation and Abuse and Sexual Harassment (SEA/H), forced and child labor surrounding communities and tourism workers. The GBV risk screening has classified the GBV/SEA risk as Substantial which is mainly linked to development of tourism activity (tourism influx) supported by the project in targeted regions. Community health and safety risks are related to waste/debris transportation to dump site, air and water pollution emanating from civil work sites. The project will also address issues related to data privacy and security with respect to project interventions in the digital sector. There is a risk of exclusion of potential SMEs (mainly under component 3) or young entrepreneurs, or stakeholders in the targeted sector (tourism, agribusiness) that may be linked to a lack of transparency and communication. No irreversible social risks related to land access, or cultural heritage will be expected. No physical displacement is expected, however there will be a risk of land acquisition, temporary displacement in relation to infrastructures and livelihood opportunities activities. The necessary activities for risk mitigation as recommended in the Good Practice Note on managing Gender Based Violence (GBV) have been considered and the project has therefore updated the existing GBV action plan developed under the current PIC 2.2 project.

119. **To limit these risks, the project has developed, prior to negotiations** (i) an Environmental and Social Commitment Plan (ESCP), (ii) a draft Environmental and Social Management Framework, (iii) an Integrated Pesticide Management Plan and an electrical waste of electronic equipment; (iv) a draft Resettlement Policy Framework; (v) a draft Stakeholder Engagement Plan including a grievance redress mechanism (GRM); (vi) a draft Labor Management Procedures, including workers GRM. The project will apply the requirements of the Environmental Health and Safety Guidelines (EHSGs) such as General EHSGs, EHSGs for road, and relevant guidelines for agribusiness/food production and relevant good practice notes (GPN) such as a GPN for road safety; life and fire safety, due mainly to the construction or rehabilitation of rural and urban road infrastructure. All instruments were published in country on May 1, 2021 and the World Bank website on May 2 for the ESMF, on May 3 for the SEP and ESCP, and on May 5 for the RPF, and LMP.

120. **Safeguards monitoring.** The M&E system of the project will include monitoring of the Environment and Social Standards' impacts and measures. The PIU as the implementing agency for the project, with the guidance of its environmental and social safeguard and with support of the World Bank safeguard team, will be responsible for the preparation, of the relevant Environmental and Social Assessment (ESA) documents, or other appropriate safeguards tools. Monitoring checklists will be prepared based on the mitigation plans.

121. **Environmental and Social Standards resources.** The project has included satisfactory calendar and budget to implement environmental and social mitigation measures. This proposed operation will benefit from the experiences of the existing operational E&S team (one environmental specialist, one social specialist and one GBV/SEA specialist at central level and one E&S assistant per region). The current PIU has capacities and several years of positive experiences on Environmental and Social risk management, and has already been trained on the ESF. The E&S team shall ensure that the provisions of the ESCP and all environmental and social documents prepared for the project are properly implemented in a timely manner. The PIU E&S specialists will also share the bi-annual E&S reports and seek for advice and guidance on critical and significant issues that arise and/or are reported during the project implementation.

V. GRIEVANCE REDRESS SERVICES

122. **Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit *http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service*. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

VI. KEY RISKS

123. **Overall project implementation risk is rated as *substantial*.** The overall project implementation risk is rated as substantial given Madagascar's economic situation, the disruptive nature of reforms at national and local levels on the current status quo, the risk of political interference considering the investment to be undertaken, the challenges faced by the project due to low human resources capacity, and the current deteriorating health situation due to the pandemic creating uncertainty over timeline of the economic recovery. This substantial risk is partly mitigated by the continuation of a successful project design model scaled up over three successive projects, strong ownership of project activities by both local and national government authorities, and by a strong PIU.

124. **Political and Governance risk rating is *moderate*.** Between 2009 and 2014, Madagascar experienced the last of several political crises that severely weakened its institutions and governance. However, in 2018 Madagascar experienced its first democratic transition of power since independence, further reinforcing a stabilized political environment conducive to continued development efforts. It is nonetheless expected that potential heightened volatility following the COVID-19 crisis, and potential changes in government counterparts at both political and technical levels may induce some delays in implementation. This risk is partly mitigated by maintaining a strong and cross-ministerial PIU, strong local ownership of project activities, as well as by ensuring close project oversight.

125. **Macroeconomy risk rating is *substantial*.** Madagascar has been historically characterized by low levels of public revenues affecting the government's ability to deliver basic services, foster development efforts and maintain sufficient levels of investment. Limited resources may affect the government's capacity to sustain the results of the proposed reforms and provide the necessary funding to maintain investments going forward, particularly in light of COVID19 impacts. The country remains vulnerable to endogenous, including political, and exogenous shocks. Nonetheless, the government has engaged on several substantive tax and customs reforms that have shown results over the last years. These reforms are expected to continue, and revenues are forecast to continue their increasing trend. Development partners' financing support, including through this proposed operation, close supervision, and technical engagement provided through international financial institution-supported programs will help mitigate these risks.

126. **Other (Market) risk rating is *substantial*.** Considering the ongoing economic uncertainties related to COVID-19 and the recovery, as well as disruptions on trade, and uncertainty on the economic recovery in key export markets in Europe (for cocoa, vanilla, and other agricultural products), as well as the as of yet unknown timeline for recovery of global travel in general and air connectivity for Madagascar in particular, the country remains vulnerable to international economic developments on all three sectors (digital, tourism and agribusiness). The project will partly mitigate this risk through: agribusiness targeted interventions on key high-growth value chains, support to key digital growth sub-sectors and new markets, and support to the tourism sector to prepare the country to welcome tourists back once restrictions are lifted, and support destination repositioning and promotion on the demand side.

127. **Sector Strategies and Policies risk is *moderate*.** The project is closely aligned with the national strategy as framed in the draft version of the PEM as well as sector policies. Tourism sector strategy/policy risk is mitigated by clear alignment with the GoM's sectoral objectives, for example, improving connectivity of Madagascar's destinations, increasing destination visibility at the national and international levels, facilitating sectoral investments and enhancing the quality of the tourism supply (PEM, draft 2020). Risk is further mitigated by strong national and regional government familiarity with and commitment to the integrated approach to sector development. In the agribusiness sector, policies that affect private sector investments and operations are often implemented with little consultation with private sector stakeholders, due to weak public-private dialogue and low technical capacity of line ministries. PIC3.1 will promote public-private dialogue and multi-stakeholder platforms in key value chains. The project will also support ministries to enhance technical capacity, including capacity related to the design of regulations and legislation that affects the private sector. For the digital sector, policy risks are mitigated by clear alignment and strong support to Publc sector on this topic.

128. **Technical Design and Institutional Capacity for Implementation and Sustainability rating is *moderate*.** The technical design of the project is similar to that of preceding PICs, with gradual extensions into new zones and sectors, thus mitigating signficantly the technical design risk of the project. Moreover, the project will be anchored in the existing PIU, which has overseen successful implementation of the preceding PIC projects. There does exist a risk of a change in key PIU staff. Further to PIU, strong World Bank supervision and local government ownership mitigate the perceived complexity in project design. It is proposed that the same steering committee (*comite de pilotage*) which includes representatives from the ministries responsible for agriculture, tourism, post, telecommunications and digital development, energy, commerce and industry, spatial planning, housing, and public works, decentralization, and water, continue to provide strategic guidance to the project. The Ministry of Economy and Finance will chair the Steering Committee.

129. **Fiduciary risk is moderate.** Financial management: The current implementing unit of the ongoing PIC2.2 will be responsible for the financial management aspects. The PIU has substantial experience in managing World Bank-

funded projects with competent financial management staff. The audit opinion in 2019 was unqualified. Audit reports as well as Interim Financial Rerports (IFRs) were received in a timely manner. Considering the substantial experience of the PIU built on the implementation of the previous SOPs of PIC and the high level of adherence with the FM requirements throughout the implementation of the successive projects, the residual FM risk is rated Moderate. Procurement: The current PIU has relevant experience on the New Procurement Framework and therefore the risk is deemed “Moderate”.

130. The environmental and social risk classification is *substantial*. It is expected that the project activities will essentially have positive socio-economic impacts, create short-term employment opportunities. The project covers many diverse regions and many possible types of interventions, both of which make social risk management challenging in general. However, the potential adverse risks and impacts on human populations and/or the environment are not likely to be significant and will be site specific. The GBV risk assessment tool has been applied to the project and the risk rating is substantial. The current PIU has capacities and several years of positive experiences on Environmental and Social risk management and have already been trained on the ESF.

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY: Madagascar
Economic Transformation for Inclusive Growth Project

Project Development Objectives(s)

The Project Development Objective is to Increase the Growth of Small and Medium Enterprises in Target Regions in Madagascar.

Project Development Objective Indicators

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Performance of SMEs							
Change in revenue growth of beneficiary firms in target regions (Percentage)		0.00	0.00	0.00	15.00	15.00	20.00
Change in revenue growth of women-owned/led beneficiary firms in target regions (Percentage)		0.00	0.00	15.00	15.00	20.00	20.00
New jobs created by supported firms in target regions (Number)		0.00	1,000.00	2,000.00	3,000.00	5,000.00	7,500.00
New jobs created by supported firms in target regions for women (Number)		0.00	200.00	800.00	1,200.00	2,500.00	3,000.00

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
1. Attracting and Retaining Private Investment and Removing Key Constraints to Support Recovery							
Government and supported institutions strengthened (Number)		0.00	3.00	6.00	8.00	9.00	10.00
Investment Climate reforms supported through training, capacity building, and/or policy review (Number)		0.00	1.00	2.00	3.00	4.00	6.00
Formal businesses newly registered in the target regions (Number)		9,692.00	12,691.00	13,691.00	14,771.00	15,937.00	17,194.00
Women-led or women-owned formal businesses created in the target regions (Gender) (Percentage)		40.50	41.50	43.50	45.50	47.50	50.00
Amount of private sector investment leveraged through co-investment from SMEs supported by the project (Amount(USD))		0.00	0.00	3,000,000.00	7,000,000.00	14,000,000.00	21,000,000.00
Component 2. Removing Constraints for Private Investment & Enhancing Local Economic Competitiveness							
Change in the value of exports of selected agricultural produce in target regions (Percentage)		0.00	0.00	8.00	22.00	32.00	40.00
Change in the value of sales from selected agricultural		0.00	0.00	10.00	20.00	40.00	50.00

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
product sales for beneficiary smallholders in target regions (Percentage)							
Producer households with new commercial relationships (Number)		0.00	0.00	500.00	1,500.00	5,000.00	10,000.00
Hotel rooms available in the target regions (Number)		8,863.00	2,770.00	3,739.00	5,422.00	8,946.00	9,214.00
Tourism sites supported by the project in the target regions (Number)		0.00	1.00	2.00	4.00	5.00	7.00
Average increase in revenues collected at tourism sites in the target regions (Percentage)		0.00	5.00	8.00	13.00	16.00	20.00
Annual municipal revenues collected by targeted municipalities (MGA billion) (Number)		13.48	13.11	15.63	16.41	17.23	18.09
Municipal budgets executed for investment by targeted municipalities (Percentage)		5.20	4.00	6.00	7.00	7.50	8.00
Productive infrastructure investments supported by the project that apply climate resilience standards (Percentage)		0.00	20.00	40.00	60.00	70.00	80.00
Project related grievances addressed within the required terms (Citizen engagement) (Percentage)		0.00	100.00	100.00	100.00	100.00	100.00
3. Supporting SMEs and Entrepreneurship Recovery and Growth in Target Sectors							

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Individuals trained by public and private training service providers supported by project (Number)		0.00	0.00	500.00	1,500.00	2,500.00	2,800.00
Females trained by service providers receiving funding/support from project (Number)		0.00	0.00	150.00	800.00	1,000.00	1,500.00
Firms supported on business plan expansion (Number)		0.00	0.00	5.00	10.00	20.00	30.00
Women-led or women-owned firms supported on business plan expansion (Number)		0.00	0.00	1.00	3.00	8.00	12.00
Firms benefiting from acceleration program (Number)		0.00	0.00	50.00	80.00	100.00	150.00
Firms benefiting from acceleration program of which are female-led or owned (Number)		0.00	0.00	5.00	15.00	25.00	40.00
Beneficiaries satisfied that grant-related activities reflected their needs (Citizen engagement) (Percentage)		0.00	0.00	60.00	60.00	75.00	75.00

Monitoring & Evaluation Plan: PDO Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Change in revenue growth of beneficiary firms in target regions	Percentage change in sales revenue of project-supported businesses. Baseline sales will be zero for startups, or previous year's sales for existing firms.	Annual	PIU on basis of firms' financial statements	surveys administered to beneficiary firms	PIU
Change in revenue growth of women-owned/led beneficiary firms in target regions	Gender disaggregation of percentage sales revenue growth of beneficiary firms	Yearly	PIU from firms.	Surveys to beneficiary firms	PIU
New jobs created by supported firms in target regions	Number of new workers entering the formal sector by supported firms in the targeted regions per year in the project target sectors as declared by employers to the CNAPs. Targets are cumulative	Annual	CNAPs	M&E specialist	PIU
New jobs created by supported firms in target regions for women	Gender disaggregation on formal jobs created	Annual	CNAPs	M&E specialist	PIU

Monitoring & Evaluation Plan: Intermediate Results Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Government and supported institutions strengthened	Number of government and supported institutions	Annual	PIU	PIU M&E specialist	PIU

	strengthened in the intervention areas. Targets are cumulative				
Investment Climate reforms supported through training, capacity building, and/or policy review	This indicator measures the number of IC related reforms whose preparation and implementation are supported by the project through training, capacity building and/or policy review. A reform is defined as a change to administrative procedures, institutional legal , regulatory or framework. Targets are cumulative.	Annual	PIU	PIU M&E specialist	PIU
Formal businesses newly registered in the target regions	Flow data of registered formal sector businesses at INSTAT/EDBM/DRI including sole proprietorships reported for the targeted regions. Targets are cumulative.	Annual	INSTAT/EDBM/DRI	PIU M&E based on INSTAT/EDBM/DRI	PIU
Women-led or women-owned formal businesses created in the target regions (Gender)	Percentage of women-led or women-owned formal businesses established reported for the targeted regions. Targets are cumulative	Annual	INSTAT/EDBM/DRI.	PIU M&E Specialist	PIU
Amount of private sector investment leveraged through co-investment from SMEs supported by the project	US$ leveraged by supported companies using private financing in the form of	Annual including 1 year post	Municipalities / EDBM/ PIU	M&E specialist	PIU

	equity and/or debt or own funds committed as verified by the Memoranda of investment or the 'convention' signed with private providers.	support			
Change in the value of exports of selected agricultural produce in target regions	The indicator measures the (cumulative) growth rates in the value of exported volumes for supported agricultural value chains or specific products targeted. Agricultural produce supported may be added or removed throughout the project	Semiannual	Customs services records / reports by individual beneficiary firms	Data provided by customs services and beneficiary firms	PIU
Change in the value of sales from selected agricultural product sales for beneficiary smallholders in target regions	Measures the Cumulative growth rate of (average) gross sales of targeted agricultural products by supported smallholders'. Agricultural produce supported may be added or removed throughout the project	Annual	PIU reports and balance sheets of individual beneficiary firms	Primary data from sample of beneficiary smallholders or smallholders groups; information reported by beneficiary agribusiness firms	PIU
Producer households with new commercial relationships	The indicator measures the number of supported households in targeted agricultural value chains that benefit from market access as a result of project	Annual	PIU reports ; M&E systems of beneficiary firms	Primary data collection from smallholders or smallholders groups; beneficiary agribusiness firms	PIU

	activities. Agricultural produce supported may be added or removed throughout the project				
Hotel rooms available in the target regions	Tracks the reopening/increase in hotel rooms in the target regions. Rooms counted are open, functional, at each year-end. Excludes rooms under construction or temporarily closed, and other types of tourist properties, e.g. vacation rentals.	Annual	Regional Directorates of the Ministry in charge of tourism	PIU M&E Specialist through data provided by the Regional tourism Directorates	PIU
Tourism sites supported by the project in the target regions	Tourism sites directly supported by the Project (e.g. site upgrades, rehabilitation, access improvements). Targets are cumulative.	Annual	PIU	PIU M&E specialist collects data	PIU
Average increase in revenues collected at tourism sites in the target regions	Increase in revenues at selection of tourism sites in the target regions. Sites include those directly and indirectly supported by the Project.	Annual	Site managers	PIU M&E Specialist collects data from site managers	PIU
Annual municipal revenues collected by targeted municipalities (MGA billion)	Amount of revenue collected by communes , excluding state subsidies. Annual targets are the absolute value of revenues	Annual	Municipalitie s	*PIU M&E Specialist based on municipalities' financial statements*	PIU

	recovered (measured in MGA billion).				
Municipal budgets executed for investment by targeted municipalities	Share of annual budget of the communes supported by the project spent on investment in and repair maintenance of public infrastructures, to capture increased financial revenues and improved capacity to maintain rehabilitated infrastructure.	Annual	Municipalitie s	PIU M&E Specialist will monitor based on municipalities' financial statements	PIU
Productive infrastructure investments supported by the project that apply climate resilience standards	Percentage of productive infrastructure investments supported by the project that apply climate resilience standards	Annual	PIU M&E specialist	Implementation reports	PIU
Project related grievances addressed within the required terms (Citizen engagement)	Measures the percentage of target beneficiaries grievances that are addressed, using the GRM Manual, with incidence reporting and response protocol.	Annual	Report from the GRM	Methodology established in GRM Manual.	PIU
Individuals trained by public and private training service providers supported by project	Number of persons trained on business, PI, digital skills by service providers receiving funding/support from project.	Semiannua l	Project funded/supp orted service providers	Project funded/support ed service providers' monitoring system reports	PIU
Females trained by service providers receiving funding/support from project	Number of females trained by service providers receiving funding/support	Semiannua l	Project funded/supp orted service	project funded/support ed service providers' monitoring system	PIU

	from project		providers	reports	
Firms supported on business plan expansion	Number of companies in target sectors that have received an incentive package from the project against their expansion plans, focused on eligible expenditures (as per Project Implementation Manual)	Semiannual	PIU	M&E specialist	PIU
Women-led or women-owned firms supported on business plan expansion	Gender disaggregation on firms supported on business plan expansion	Semiannual	PIU	M&E specialist	PIU
Firms benefiting from acceleration program	Number of Malagasy or JV target sector firms benefiting from acceleration program	Semiannual	PIU	M&E specialist	PIU
Firms benefiting from acceleration program of which are female-led or owned	Gender disaggregation on firms benefitting from acceleration programs	semiannual	PIU	M&E specialist	PIU
Beneficiaries satisfied that grant-related activities reflected their needs (Citizen engagement)	Level of satisfaction of grantees under the project's third component with the services provided to them.	Annual	PIU	M&E specialist	PIU

ANNEX 1. Implementation Arrangements and Support Plan

COUNTRY: Madagascar
Economic Transformation for Inclusive Growth Project

A) Financial Management

1. **The FM assessment for the PIU was conducted in March 2021. The PIU is currently implementing the Madagascar Integrated Growth Poles and Corridor SOP-Phase 2 (PIC 2.2)[78] as well as the preceding Series of Project (SOP) PIC1.** The results of the assessment indicate that the FM arrangements within the PIU are adequate. There is no overdue financial audit. Interim financial reports are submitted in a timely manner and are acceptable. The recent external audit opinion for the project for the period ended December 31, 2019 are unqualified. The FM performance of the project is satisfactory, and no major FM issues were noted through the successive supervision missions. The institutional implementation arrangements for the PIC 2.2 will remain applicable to the PIC3.1 subject to additional capacity and risk mitigating measures due to increased funds and the nature of activities to be financed and the extension of the zones covered by the PIC.

Detailed Financial Management (FM) and Disbursement Arrangements for the Project

2. **Staffing.** The PIU has FM staff that possesses the relevant qualifications and the appropriate experience with regard to the World Bank Financial Management procedures and requirements. The staff is composed by a Finance Manager, a Chief Accountant and an Accountant at the central level. Each regional office is staffed by an Accountant. Considering the workload resulting from the implementation of the PIC 2.2 and the additional financing, additional FM staff will be recruited no later than 2 months after the effectiveness date to support the existing team with the PIC 3.1 implementation.

3. **Planning and Budgeting.** Planning and budget arrangements during the PIC 2 will apply during the PIC 3.1. The PIU will prepare the annual budget which will be reviewed by the Project Steering Committee. The periodic variance analysis will enable the timely identification of deviations from the budget. These reports will be part of the IFRsthat will be submitted to the Association on a quarterly basis.

4. **Internal controls.** The PIU will amend the existing FM procedures manuals to include the PIC 3.1 activities features. 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. **Funds flow and disbursement arrangements.** Disbursements will be made in accordance with the World Bank Disbursement Guidelines for Projects, dated February 2017. A separate Designated Account (DA) will be opened to receive the PIC3.1 disbursements from the World Bank. A secondary USD account will be opened at an acceptable commercial bank to enable payment of eligible expenditures. An account at a commercial bank will be opened for each regional office.

[78] P164536 PIC 2.2 Madagascar Integrated Growth Poles and Corridor SOP-2, IDA 63150 effective in May 2019 and closing in December 2023, US$70 million, disbursed at 62.6 percent as of April 12, 2021. IDA 68170, US$30 million, not yet disbursing.

6. **Disbursement arrangements.** 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 DA and subsequent disbursements will be made monthly against submission of the Statement of Expenditures or other documents as specified in the Disbursement and Financial Report Information Letter. The project has as a disbursement condition the updating of the PIM to include specific grant manuals for grants to SMEs and to BDS providers.

7. **The credit will disburse 100 percent of eligible expenditures (inclusive of taxes) in line with the Country Financing Parameters for Madagascar.**

8. **Accounting and financial reporting.** The project accounting system will be maintained on a modified accruals cash basis with disclosure of commitments and will comply with the Malagasy General chart of accounts (*Plan Comptable Général* 2005) which is broadly in line with the International Accounting Standards (IAS) / International Financial Reporting Standards (IFRS) The PIU will use the existing accounting software for transactions processing, budget follow-up, preparation of the quarterly interim financial reports and the annual financial statements.

9. **The PIU will prepare quarterly un-audited IFRs for the project, the report format will be agreed with the World Bank.** These IFRs will be submitted to the World Bank within 45 days after the end of the quarter to which they relate. At the end of each fiscal year, the project will prepare annual financial statements which will be subjected to an external audit.

10. **Internal audit.** The internal audit department of the PIU is operational since the PIC 2 implementation. The audit plan is satisfactorily comprehensive, and reports are issued in a timely manner. The internal audit arrangements in place are deemed adequate to cover the PIC3.1. Internal audit of the project shall be conducted at least three times a year. The report should be communicated to the World Bank thirty days after finalization of each internal audit.

11. **External financial audit.** The external audit of the whole project's financial statements will be carried out by an independent audit firm acceptable to the World Bank. The audit will comply with the International Standards on Auditing. The audit report will be furnished to the World Bank within six months after the end of the project fiscal year.

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

13. **Fraud and corruption.** The PIM that will apply to the PIC3.1 activities has been developed considering the World Bank directives and guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants (revised as of July 1, 2016).

Table 1.1. Risk and mitigation measures for the PIC 3.1

Risk	Risk Rating	Risk Mitigating Measures Incorporated into Project Design	Conditions for Effectiveness (Y/N)	Residual Risk
Inherent risk	**S**			**S**
Country level: Country level: Weak Public Financial Management (PFM) performance of the country despite the 2016 reform program, resulting in the risk of lack of budget credibility and, lack of transparency and accountability in the use of public funds.	H	The GoM is committed to implement further reforms of the country's PFM with support from the development partners.	N	H
Entity level: FM requirements not met, weak FM capacity	M	The PIU will recruit additional staff to reinforce the existing experimented staff.	N	M
Project level: The resources of the project may be distracted due to weak control environment	M	The PIU will update the PIM to consider the additional activities led by the PIC3. 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	S			M
Budgeting: Weak budgetary execution and control leading to budgetary overruns or inappropriate use of project funds.	M	The FM procedures manuals for PIU spell out the budgeting and budgetary control arrangements to ensure appropriate budgetary oversight. The budget follow-up will be documented in the quarterly IFR.	N	M
Accounting: Reliable and accurate information not provided to inform management decisions.	M	The PIU will retain suitably qualified and experienced FM personnel to ensure appropriate performance of the accounting and FM functions. Additional FM staff will be recruited to support with the FM management of PIC3.1 activities. The financial reporting process will be facilitated by the utilization of the existing computerized accounting systems.	N	M
Internal Control: Business processes, roles and responsibilities within the project are not clear, leading to ineffective of control.	M	The PIM of the PIU will be updated to ensure continuing adequacy over the course of the project life. The internal auditor of the PIU will cover the PIC3.1 activities.	N	M
Funds Flow: Risk of misuse and inefficient use of funds ; Inappropriate funds arrangements may lead to non-financing of the project	S	The rigorous review of all transactions prior to final payment will be continuously 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)	Residual Risk
activities.		The disbursement plan will be established considering the actual processing time of each step of the country disbursement mechanism. The project will retain the qualified internal auditor.		
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 PIUs will recruit additional staff to support the existing one that possess adequate experience and competence. The PIUs 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. Low quality of the external report.	M	The PIU will recruit the external auditor early. The computerized accounting system will lead to timely generation of IFRs and financial statements.	N	M
Governance and Accountability: Possibility of corrupt practices including bribes, abuse of administrative and political positions, mis-procurement and misuse of funds, and so on, are a critical issue.	S	Robust FM arrangements, World Bank FM and procurement supervisions. Effective internal control arrangements. In addition, the supervision mission is tailored based on the risk assessed.	N	M
Overall FM risk	M			M

Table 1.2: FM action plan

Action	Responsible	Deadline
Additional FM staff will be recruited to temporarily support the existing team with the PIC3 implementation.	PIU	No later than 2 months after the project effectiveness.
Revise the Project internal controls procedures to include comprehensive guidance on use of PIC funds.	PIU	No later than 1 month after the project effectiveness.
Open designated account to receive the funds	PIU	1 month after the project effectiveness.

B) Procurement

14. **Applicable rules and procedures.** This project will use the World Bank Procurement Framework, the procedures specified in the World Bank Procurement Regulations for Investment Project Financing Borrowers dated July 1, 2016, (Procurement Regulations) and its later revisions: November 2017, August 2018 and November 2020; and the World Bank's Anti-Corruption Guidelines: Guidelines on Preventing and Combatting

Fraud and Corruption revised as of July 1, 2016, as well as provisions stipulated in the Financing Agreement. During its implementation, the project will update a procedure manual based on and in accordance with these above mentioned World Bank references.

15. All goods and non-consulting services will be procured in accordance with the requirements set forth or referred to in Section VI. Approved Selection Methods: Goods, Works and Non-Consulting Services of the Procurement Regulations, and the consulting services will be procured in accordance with the requirements set forth or referred to in Section VII. Approved Selection Methods: Consulting Services of the Procurement Regulations, as well as according to the PPSD and the procurement plan approved by the World Bank.

16. Institutional arrangement for procurement. The PIU will be responsible for the project fiduciary aspects. The project will strengthen its procurement capacity by training their procurement team who has already assisted in the implementation of the preceding similar project (PIC2.2). Additionally, the World Bank's procurement team will provide coaching and continuous hands-on support to the project.

17. Procurement risk assessment. A procurement capacity assessment of the PIU to implement the project procurement activities revealed that they had experience with World Bank Procurement Regulations. The assessment concluded that overall procurement risk rating is Moderate.

18. The following mitigations measures are proposed: (a) training for their procurement team and procurement stakeholders within the Project team. The World Bank's procurement specialist will provide training based on all project staff involved in procurement activities needs; (b) the World Bank's procurement specialist will assist, coach, and provide continuous handholding support to the project staff; (c) the PPSD was developed with a fit-for-purpose approach and methods to address the project's objective and specificity.

19. Brief summary of the PPSD. Given the specificity of the project, the market analysis concluded that Technical Assistance related to implementation of customer relationship system at Economic Development Board of Madagascar, international market analysis and support on digital sector, grant management for SMEs, support to local business incubators, operationalization of a label for specific agricultural sector will use international open competition. Specific materials for airports will be procured through international limited competition. Individual consultants constituting the project implementation team will be procured through direct selection. For workshops and small recurrent services and goods, due to their frequency, the procurement method will be the framework agreement.

20. Procurement Plan. The draft Procurement Plan for the first 18 months was finalized and approved before the project negotiation. The procurement plan will be updated by the PIU at least on an annual basis to reflect actual project implementation needs. The project will be using the World Bank's online procurement planning and tracking tools, STEP, to prepare, clear, and update its procurement plan and to carry out all procurement transactions.

21. Frequency of procurement supervision. In addition to the prior review carried out by the World Bank, a supervision mission will be conducted every six months and a post-procurement review will be conducted on an annual basis.

ANNEX 2 : Detailed Economic and Financial Analysis

COUNTRY: Madagascar
Economic Transformation for Inclusive Growth Project

1. **As part of project preparation, an EFA has been conducted across the project components to determine the value of the anticipated benefits relative to the costs associated with this project.** The Project NPV is estimated at US$9.8 million at a 15 percent discount rate[79], and the ERR at 18 percent. Details on these calculations are provided in the "Detailed Economic Analysis" section further below.

Rationale for Public Intervention

2. **Project design follows an MFD approach, by determining systematically the possibility to use private financing instead of public one to realize the project's objectives. Essentially, public activities financed by the project address constraints that currently hinder or reduce private financing; as such, unlocking these constraints to enable an influx of private financing.** For example, the project tackles key regulatory obstacles to private investment of SMEs in the agribusiness and tourism sectors, but also offers the possibility for additional transactional support to the government to resolve coordination and information failures that may also prevent private financing to be mobilized for more strategic investments. Mechanisms included in the project are designed to: (i) increase awareness and attractiveness of potential investments and support de-risking of private investments; and (ii) address recovery needs from the COVID-19 pandemic, especially in the tourism and agribusiness sectors.

World Bank's value added

3. **The World Bank offers significant value to the proposed project activities through provision of financing, technical assistance and convening services.** The World Bank has significant experience in developing and supporting the implementation of geographically-based growth-oriented programs. Madagascar is in need of strong reforms and investments to support the sustainable development of agribusiness and tourism in the pole areas. Based on its experience in tourism development, agribusiness, entrepreneurship development, and investment promotion (in existing and pipeline projects across sub-Saharan Africa and globally), the World Bank is able to incorporate lessons learned from these programs into the design of this project. Most importantly, the World Bank can draw upon the results and lessons from past operations in Madagascar, and specifically in the pole areas as part of the PIC Series of Projects.

Contribution of EFA to project design

4. **This EFA has been used as an input to refine details of the project design, which have then in turn further informed the EFA itself, such as the timing and size of project investments, the impact chain and results framework, and M&E indicators and their associated targets**.

[79] Discount rate: This is based on the risk-adjusted opportunity cost of capital for World Bank financing in Madagascar.

Actions during implementation to revisit EFA at mid-term

5. **At mid-term, the project team will use current M&E data to evaluate the impact to date of the project.** These actuals will be used to calculate an updated internal rate of return and net present value. Given that much of the impact associated with the project will be visible in the years after closing, the interim ERR and NPV will most likely be negative; however, these values can be used to evaluate the quality of the original predictions during project design.

6. **Additionally, the EFA will be updated to reflect the realities of the project at mid-term.** This includes updating the expected ERR and NPV going forward based on the actual data available, and using this information to qualify and assess potential changes to the project budget allocations and design.

Impact of the project on the borrower's fiscal situation and analysis of anticipated cost recovery

7. **Madagascar currently runs a fiscal deficit of 2.40 percent of GDP in 2019[80], with public debt accounting for 30.1 percent of GDP[81].** Although this project would contribute further to this public debt, IDA credits are given at highly concessional rates and flexible repayment terms. Additionally, the investments under this project are expected to contribute to future fiscal revenues in Madagascar that should far exceed the fiscal cost of the loan.

8. **A financial analysis on the ability to recover the cost associated with this loan has been developed as part of this economic analysis for the GoM.** Terms of this loan were determined during negotiations procedures. This estimate will be different from the project ERR because it is the project return from the perspective of the government, including both the costs of the loan (interest, commitment and service charges) and the tax benefits that the government could receive from increased revenues of project beneficiaries. These factors are not included when calculating the ERR from the perspective of the World Bank, since the only costs from that perspective are the disbursements themselves and the revenues are increased revenues of beneficiaries. It is also worth noting that the 5-year grace period allows for economic returns from the loan to accrue prior to the start of any repayment. This analysis will be updated at project mid-term along with the economic analysis.

Detailed Economic Analysis:

9. **This economic analysis accounts for the benefits in Madagascar as a result of the different investments in the pole areas under PIC 3.1.** This includes increases in the number of and spending of tourists, improved agricultural production and income for smallholders and commercial farms, increased incomes for SMEs, and so on. To calculate this rate of return, we have estimated the monetary benefits of increased incomes to beneficiaries, and the monetary value of jobs (aggregate salaries) that are created as a result of the project investments. For the purpose of this analysis, we have considered these increases in income and the monetary value of the jobs that are created as the income of the project investments, therein applying the discounted cash flow model for financial analysis of private investments within the context of a World Bank project.

10. **For the purpose of this analysis, we will focus primarily on direct impacts of the project investments.** Other projects in the pole areas will provide further support to the pole areas that is likely to amplify the impact

[80] https://tradingeconomics.com/madagascar/government-budget
[81] ibid

of project investments (for example, TA to support local destination management). This amplified impact will essentially create a multiplier effect related to the investments under this project. However, this multiplier effect has not been included in the project design for a number of reasons: (i) for the sake of conservatism; (ii) difficulties in attribution and measurement associated with using a sweeping multiplier; and (iii) difficulties in determining the correct size and timing of the multiplier effect. Given this exclusion, the impacts from this project will likely be further reaching than what is described in the analysis here. Excluding this multiplier effect means that our calculations of the ERR noted here are based on quantified benefits to direct project beneficiaries, rather than incorporating further social benefit spillovers.

11. The analysis provided below calculates the ERR for specific project sub-components. For investments consisting primarily of TA (for example, component 1), our discussion focuses more on qualitative studies to justify these investments, since the indirect reforms triggered by such investments are difficult to quantify.

Component 1 - Attracting and Retaining Private Investment and Removing Key Constraints to Support Economic Recovery from the COVID19 crisis

12. As mentioned above, the economic analysis of component 1 presents a special challenge due to the indirect relationship between the government reforms supported under the project and the stream of benefits that these are expected to trigger. In the absence of commonly accepted methodologies for the economic analysis of these types of investments, these types of projects are based on cost effectiveness and more general analytical work on the effects of capacity building and institutional reforms on investment projects, along with private sector growth and entrepreneurship.

13. Below we have provided a qualitative analysis in support of these investments, based on the literature discussing the impact of business environment reform on competitiveness and firm entry.

14. The relationship between the characteristics of the business regulatory environment and the performance of firms has also been documented (Djankov et. a1, 2002; Botero et. al, 2004, Acemoglu and Johnson, 2005; Mastruzzi, 2006; and Kaufmann et. a1, 2006) but most of this work is non-experimental and hence faces problems of endogeneity.

15. The literature supports the link between stronger institutions and economic performance. For example, Hall and Jones (1999) argues that differences in factor productivity are due to differences in "social infrastructure" – meaning that institutions can contribute to the accumulation of skills that contribute to economic performance.

16. Research also highlights the importance of trade and investor facilitation on investment projects and the costs and ability to export. Delays in getting goods back and forth through the customs, as well as the overall unpredictability of transport times constrain firms from participating in time-sensitive production often important for manufacturing and agribusiness industries. Nordas (2005) finds that an additional day required for exporting is equivalent to being 70 km farther away from the trade partner. Similar calculations suggest that if time to export can be reduced by 1 percent, exports on average could increase by more than 1.5 percent.

17. The data also show a positive and significant relationship between economic and financial development and entrepreneurship. The log of GDP per capita and domestic credit to the private sector (as a percentage of GDP) are both positively and significantly correlated with entry rates (see below) and business density. This suggests that greater business opportunities and better access to finance are related to a more robust private sector (Klapper et al. 2008), lending further credence to the government reforms supported by the project.

18. A basic economic analysis of this component is based on its value as a channel for investment promotion, increasing the annual number of investment projects. We assume that an additional investment project is announced annually starting in 2021, with an average value of US$20 million. Of these announcements, only 5 percent are assumed to go forward to completion. Each project is assumed to create 50 jobs on average. Since there is a limited history of large scale investment projects in Madagascar, this analysis is not a precise representation of the estimated impact of these investments. Rather, the purpose of this calculation is to demonstrate that even with a small increase in investment projects, the NPV is positive at US$7.0 million with an ERR of 28 percent.

Table 2.1 Summary of hypotheses

Average project investment	20,000,000
Average number of jobs	50
Average annual salary (US$)	1200
Percentage of announcements implemented	10%
Percentage of investment allocated to initial costs outside pole areas	40%
Investment receipt delay (years)	3

With the project	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Number of additional investment announcements per year	-	-	1	1	1	1

Source: World Bank

Sub-component 2.1.1 and 2.2.1 - Tourism

19. Investments under sub-components 2.1.1 and 2.2.1 will provide support to strengthen the tourism sector in the pole areas to enable recovery from the COVID-19 pandemic and long-term growth of the sector. Tourism-related local governance support under component 2.3 is also included in the estimated impact. In the economic analysis of this component, the ERR is expected to be 20 percent. The NPV is expected to be about US$7.1 million, with a discount rate of 15 percent. Improvements in income for tourism businesses (beneficiaries for this sub-component) outweigh the cost of investments under this sub-component. The sensitivity results of this component and the underlying assumptions are summed below.

20. The key assumptions are as follows:

(a) ***Increased Tourism Spending, length of stay and stayover tourist arrivals:*** As part of the analysis for tourism investments, the majority of our estimated impact comes from an increase in both the number of and spending of stayover tourists. The estimated increase in tourist arrivals is based on the key bottlenecks addressed by project investments, along with investments to improve the quality of the tourist experience in the pole areas. These quality-oriented investments are also expected to increase both tourist spending and length of stay in the destination pole areas.[82] Our baseline assumption for the annual growth rate in the number of tourists in the pole areas is 7 percent, set at the African average growth rate of 7 percent, as these destinations represent 80 percent of Madagascar's tourists.

[82] Overall length of stay in Madagascar is very high at an average of ~21 days, and the project would be unlikely to impact this.

(b) To account for the impact of COVID-19 on tourism baselines, we have delayed the estimated impact of the project's interventions and reduced the baseline tourism arrivals from 2019 actuals by 50 percent.

(c) ***Additional private investment:*** The analysis assumes an additional 5 percent of private investment enters the tourism ecosystem as a portion of project investments. Given that a large portion of this investment may return to the specific investor as opposed to circulating within the local tourism ecosystem, the analysis assumes that only 20 percent of this additional investment remains within the tourism ecosystem, as such, increasing overall tourism investment by an additional 1 percent on top of annual project investments.

Table 2.2. Project Baseline and impact assumptions

Baseline assumptions

	Baseline # tourists (per yr)	Annual growth rate, # of tourists	Length of stay (days)	Annual growth, length of stay	Avg daily spend (accommodation, US$)	Annual growth, accommodation spend	Avg daily spend (non-accommodation, US$)	Annual growth, non-accommodation spend	Cost portion of business revenue	Baseline # tourists (per yr), 2019 actuals	Reduction in tourist arrivals for baseline of analysis
Diana											
Nosybe	51,013	7%	6	0%	100	2%	80	2%	80%	102,026	50%
Sainte Marie	21,283	7%	3	0%	60	2%	80	2%	80%	42,566	50%
Routes to Diego	15,533	7%	3	0%	80	2%	80	2%	80%	31,066	50%
Maritime tourism	10,000	7%	3	0%	0	2%	150	2%	80%	20,000	50%
Atsimo-Andrefana	16,490	7%	4	0%	90	2%	95	2%	80%	32,979	50%
Anosy	9,944	7%	3	0%	80	2%	80	2%	80%	19,888	50%

Project impact assumptions

	Effective date of investment	Additional growth rate, # of tourists	Growth rate, length of stay	Growth rate, accommodation spend	Growth rate, non-accommodation spend	# of years growth rate applies
Diana						
Nosybe	2023	5.0%	0.0%	2.0%	2.0%	3
Sainte Marie	2023	0.5%	0.0%	2.0%	2.0%	3
Routes to Diego	2023	3.0%	0.0%	2.0%	2.0%	3
Maritime tourism	2023	2.0%	1.0%	2.0%	2.0%	3
Atsimo-Andrefana	2023	3.0%	1.0%	2.0%	2.0%	3
Anosy	2023	3.0%	0.0%	2.0%	2.0%	3

Benefit from additional private investment	20%

Jobs created per $ rev	0.0001
Average annual salary (US$)	1200

21. The assumed increase in tourism spending ranges from an additional spend of US$2-5 in non-accommodation spending per tourist per year. Our base case estimate of 0-5 percent additionality to the growth rate in tourism spending is conservative given comparator cases of tourism spending growth following concentrated efforts to promote the industry, discussed below. [83]

- Costa Rica: 14 year annualized tourism spending growth rates of 20.8 percent.
- Dominican Republic: 11 year annualized tourism spending growth rates of 19.5 percent.
- Dubai: 17 year annualized hotel room occupancy growth rates of 12 percent.
- Maldives: Annualized tourism spending growth rates of 10 percent since 1972.

[83] Figures noted here are sourced from World Bank reports: *Driving Tourism in the Eastern Caribbean: The case for a regional ferry*, World Bank, Barbet-Gros et al., 2015; and *Tourism in Africa: Harnessing Tourism for Growth and Improved Livelihoods*, World Bank, Christie et al., 2013.

22. ***Sensitivity analysis***

- Reduction in the estimated increase in the number of tourist arrivals from the assumed 0.5-5 percent depending on the specific investment by 20 percent across the board reduces the ERR to 17 percent.
- Reduction in the estimated increase in accommodation tourism spending from the assumed 2 percent depending on the specific investment to 0 percent across the board reduces the ERR to 16 percent.

Sub-component 2.1.2 and 2.2.2 – Agribusiness

23. Investments under sub-components 2.1 and 2.2 will finance activities in the pole areas to support recovery following the COVID-19 pandemic and overall growth in agribusiness, targeted at specific value chains in each of the pole areas. The overall ERR is expected to be 16 percent. The NPV is expected to be about US$1.0 million, with a discount rate of 15 percent. The sensitivity results of this component and the underlying assumptions are summed below.

24. The key assumptions are as follows:

a) *Number of beneficiaries, by type*. We have estimated the potential number of beneficiaries (smallholders and SMEs) as part of the project design based on overall demand. In the base case scenario, this analysis assumes 10,000 smallholder and 50 SME beneficiaries across the targeted value chains. The table provided below shows these assumptions in detail.

b) *Growth rate additionality. The analysis assumes that smallholder beneficiaries will experience an* additional 10 percent growth rate for one year following the investments in the targeted value chains, with a return to original growth rates afterward, which have been extrapolated based on available regional value chain studies and interviews conducted during preparatory missions. For SMEs within these targeted value chains, this analysis assumes an additional 30 percent growth rate for one year.

25. ***Sensitivity analysis***.

- Reduction in the growth rate additionality for SME beneficiaries value chains from the assumed 30 percent to 15 percent reduces the ERR to 14 percent.
- Reduction in the estimated number of smallholder beneficiaries across value chains by 25 percent reduces the ERR to 11 percent.

	Diana					Atsimo-Andrefana				Anosy				
	Essential oils	Vanilla	Coffee	Pepper	Cocoa	Pois du Cap	Stevia	Artemesia	Aquaculture	Vanilla	Cloves	Honey	**Litchi**	Pink pepper
Smallholders	200	550	1,050	1,050	1,500	1,000	300	500	1,250	100	500	400	800	800
SMEs	5	3	5	5	10	3	3	2	3	1	3	2	2	5
Smallholder assumptions														
Annual revenues (US$)	$1,800	$12,500	$1,500	$1,500	$1,500	$800	$3,000	$1,000	$2,000	$6,500	$1,000	$1,500	$1,000	$500
Number of employees	5	5	3	2	5	5	5	1	3	3	2	3	2	2
Percentage of cost														
Annual profit	$1,800	$12,500	$1,500	$1,500	$1,500	$800	$3,000	$1,000	$2,000	$6,500	$1,000	$1,500	$1,000	$500
Growth rate w/o project	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	0%	2%
Additionality w/ project	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Number of years additionality appl	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Average annual salary (US$)	$500	$500	$500	$500	$500	$500	$500	$500	$500	$500	$500	$500	$500	$500
Jobs created per $ additional profit	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010
SMEs														
Annual revenues (US$)	$100,000	$1,000,000	$200,000	$200,000	$400,000	$100,000	$300,000	$200,000	$1,000,000	$100,000	$100,000	$150,000	$150,000	$20,000
Number of employees	25	6	30	30	50	50	10	10	20	3	3	10	30	10
Percentage of cost	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%
Annual profit	$20,000	$200,000	$40,000	$40,000	$80,000	$20,000	$60,000	$40,000	$200,000	$20,000	$20,000	$30,000	$30,000	$4,000
Growth rate w/o project	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Additionality w/ project	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Number of years additionality appl	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Percentage of revenues as exports (w/o project)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Percentage of revenues as exports (w/ project)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Average salary	$700	$700	$700	$700	$700	$700	$700	$700	$700	$700	$700	$700	$700	$700
Jobs created per $ additional profit	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001

Component 3: Supporting SMEs and Entrepreneurship Recovery and Growth in target sectors and target regions

26. Based on our analysis, the NPV for component 3 is estimated at US$1.9 million with an ERR of 16 percent.

27. The economic analysis of this project is based on increased revenues for companies receiving financing and technical support through this component under this project. We calculate our estimates based on the following parameters:

a) *Number of beneficiaries*. 30 scale up and 150 start-up beneficiaries.

b) *Channels of impact*. We assume that project beneficiaries will demonstrate additional growth above that without the project investments, along with a lower failure rate amongst beneficiaries.

- ***Additional growth rate***. We estimate a steady state revenue growth rate of 5 percent for firms without the project investments, with an additional revenue growth totalling at: 12 percent for scale up recipients for two years following the project support, and an additional 30 percent for start-up beneficiaries. We assume a lower additional growth rate for scale-ups because of the larger revenue base, with a higher additional growth rate for start-ups due to their low initial revenue base. Depending on the sector, high-potential start-ups can achieve 5 percent revenue growth on a monthly basis off of their lower revenue base.
- ***Reduction in failure rate***. We assume a 30 percent failure rate without project investments and a 15 percent failure rate with the project investments for scale-up beneficiaries, and an 80 percent failure rate without the project and 40 percent with the project's support for start-up beneficiaries. While these assumptions are broadly consistent with research on the impact of start-up accelerators and innovation programs, these are extremely difficult to predict; as such we have specifically tested this for sensitivity.
- ***Timeframe of impact***. We estimate a three year delay for impact.

28. Additional assumptions are provided below:

Table 2.3: Additional assumptions for calculations

	Scale ups	Start-ups
Number of entrepreneurs	30	150
Failure rate w/o project intervention	30%	80%
Falure rate w/ project intervention	15%	40%
Average annual income (US$)	500,000	10,000
Cost as percentage of income	0%	0%
Job creation rate (per $ revenue)	0.000040	0.000200
Average annual salary (US$)	28,000	1,000
Annual revenue growth (w/o project)	5%	5%
Additionality to growth rate	12%	30%
Number of years that additionality app	2	2

29. With the assumptions noted above, the project valuation and other key metrics are estimated as follows:

- NPV at a 15 percent discount rate: US$1.9 million
- ERR: 16 percent
- NPV at a 12 percent discount rate: US$8.1 million

30. ***Sensitivity analysis***.

- Reducing the estimated growth rate additionality for all project beneficiaries by 20 percent reduces the project ERR to 14 percent.
- Increasing the estimated growth rate additionality for all project beneficiaries by 20 percent increases the project ERR to 18 percent.
- Increasing the assumed failure rates with the project for scale up and start-up beneficiaries from 15 percent and 40 percent, respectively, by 20 percent (to 18 percent and 48 percent, respectively) reduces the project ERR to 13 percent.
- Reducing the assumed failure rates with the project for scale up and start-up beneficiaries from 15 percent and 40 percent, respectively, by 20 percent (to 12 percent and 32 percent, respectively) increases the project ERR to 20 percent.

Additional support from the literature

31. The literature studying the impact of financing public works and infrastructure supports the investments under this project. While the exact additional impact depends on the location and sector, the following studies demonstrate the impact of public works and infrastructure improvements:

a) Dorosh and et al. (2010)[84] find that agricultural production is highly correlated with proximity (as measured by travel time) to urban markets. Likewise, adoption of high-productive/ high-input technology is negatively correlated with travel time to urban centers. There is therefore substantial scope for increasing agricultural production in Sub-Saharan Africa, particularly in more remote areas. Total crop production relative to potential production is 45 percent for areas within four hours' travel time from a city of 100,000 people. In contrast, it is just 5 percent for areas more than eight hours away. Low population densities and long travel times to urban centers sharply constrain production. Reducing transport costs and travel times to these areas would expand the feasible market size for these regions.

b) Dorosh and et al (2010)[85] using the estimated regression coefficients simulate changes in travel times to cities of 50,000 people or more per pixel. They find that improvements in the national corridor raise total crop production by 24 percent and maize production by 33 percent and investments in rural feeder roads raise national crop production by a further 131 percent and maize production by a further 146 percent. These estimates hold for microscale investments where increases in production would not greatly affect the total market supply, similar to those that are suggested by this Project, which further reinforces the potential gains of alternative road investments on agricultural productivity and farm incomes.

c) Research also shows that in East and South Africa losses due to poor transport conditions range from 14-17 percent each year from 2003-2009 (weighted average of all cereals) (PHL Network, 2010).

d) Diao et. al. (2003) explores the implications of improving market access on agricultural income gains in Africa. He finds that over a 12-year period real agricultural income gains are twice as high with total factor productivity growth in transport.

[84] Dorosh, P., Wang, H., You, L. and Schmidt, E. (2010) 'Road connectivity and its impact on crop production'. Consultative Group on International Agricultural Research (CGIAR).

[85] Dorosh, P., Wang, H., You, L. and Schmidt, E. (2010) 'Crop production and road connectivity in sub-Saharan Africa'. World Bank Policy Research Working Paper 5385. Washington, DC: World Bank.

e) Similarly, an IFPRI model simulating the effects of market access and transport improvements, along with improvements in productivity, find that better market access increases smallholder farmers' income growth to 1.4 percent annually instead of 0.3 -0.4 average growth currently observed in low income Africa.

32. The literature studying the impact of financing on SMEs supports both the project activities supported under component 3, along with agribusiness value chain support under component 2.2 (as relevant to SMEs within the targeted value chains). "Support services" show a positive impact on SMEs sales, workers' wages, and technology adoption rates. While the exact additional impact depends on the location and sector, the following studies demonstrate the impact of direct financing on SMEs:

a) Sarder, et al. (1997) study "The Importance of Support Services to Small Enterprises in Bangladesh" and find 5-16 percent increase in employment, sales and productivity.

b) Similarly, Tan & Lopez-Acevedo (2005) look at the impact of SME programs in Mexico using panel firm data and find that 9-14 percent improvement in training and 9 percent improvement in technology absorption have been achieved.[86]

c) Various SME programs – Business Advisory Services, Technology Development, Credit, Supplier Development (1992 – 2000) in Chile presented similar results. Lopez-Acevedo & Tan (2010), "Impact Evaluation of SME Programs in Latin America and Caribbean" found 8 percent increase in wages and 9 percent increase in productivity as a result of these programs.[87]

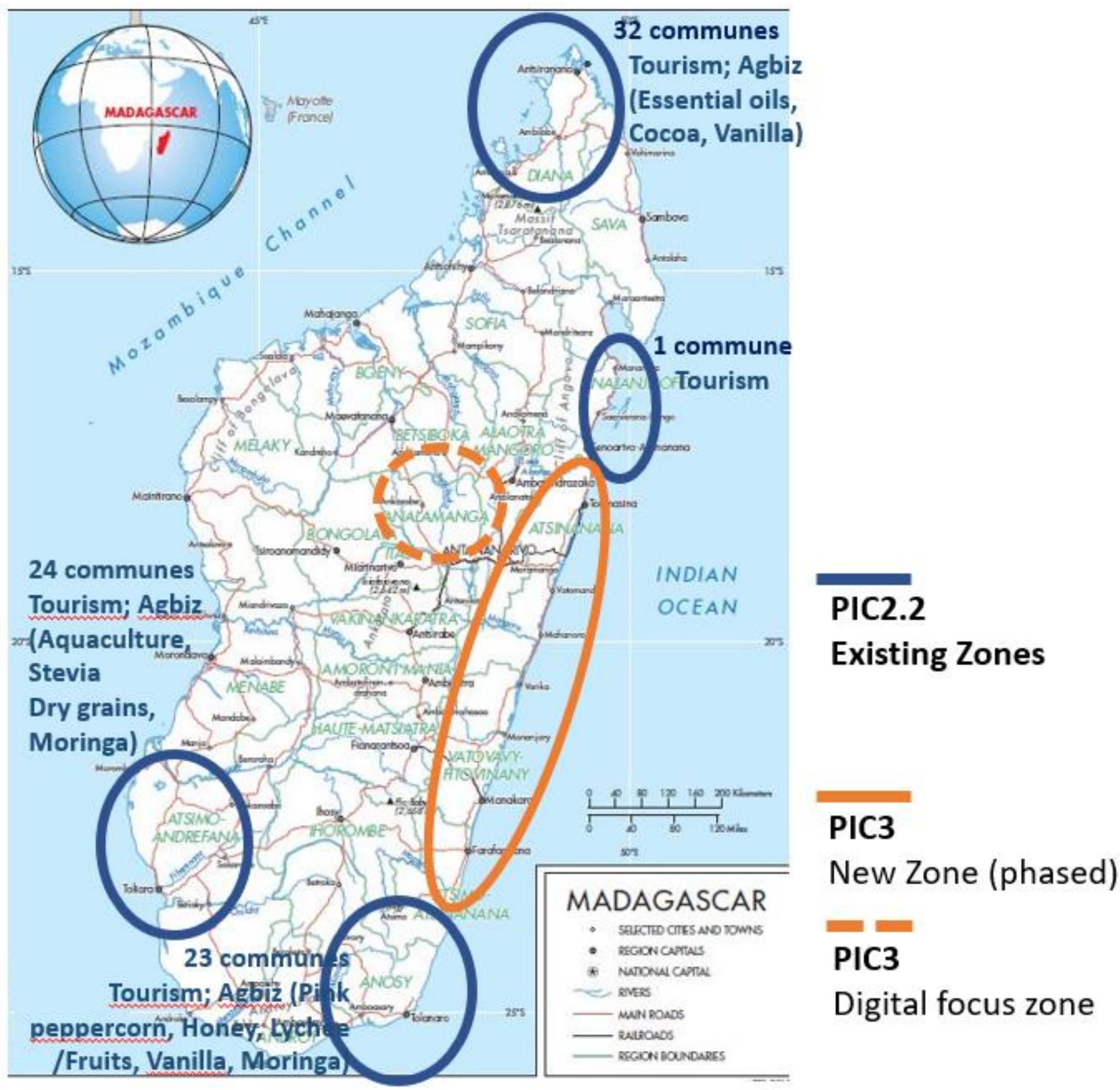
d) According to Intelecon, ICT investments increase prices paid to African farmers by 10–20 percent (Intelecon, 2011, in Grow Africa: Unlocking Africa's Agribusiness Potential, World Bank, 2013).

e) A Harvard Business Review Study conducted by Anne Marie Knott calculates the impact of R&D and equipment investments in the US by estimating a Research Quotient (RQ) which defines a relationship between firm inputs (capital, labor, and R&D investments) and firm output (revenues) based on regression analysis of American firms. Their analysis estimates that a 10 percent increase in RQ results in an increase in market value of 1.1 percent, which can translate to a 10-20x multiple in firm revenues. Since this analysis is based on R&D investments in established firms rather than start-ups, we have increased revenue growth assumptions for the project's start-up beneficiaries.

[86] Lopez-Acevedo & Tan (2005). "Impact Evaluation of SME Programs in Mexico."
[87] Lopez-Acevedo & Tan (2010): "Impact Evaluation of SME Programs in Latin America and Caribbean."

ANNEX 3: Map of proposed interventions for PIC 3.1

COUNTRY: Madagascar
Economic Transformation for Inclusive Growth Project



ANNEX 4: Comparison of SOP PIC 2 (PIC 2.1 and 2.2) and PIC 3.1

COUNTRY: Madagascar
Economic Transformation for Inclusive Growth Project

	PIC 2.1 (2015-2019)	PIC 2.2 (2019-2024)	PIC 3.1 (2021-2026)
IDA Financing	**US$50 million**	**US$70 million**	**US$150 million**
Spatial approach	Poles and corridors	Poles and corridors	Poles and corridors
Regional Focus	i) **Diana** Region – support along the RN6 corridor from Ambanja to Diego ii) **Atsimo Andrefana** Region – along RN9 corridor to the North and in the south from Anakao and Tsimanampetsotsa National Park iii) **Anosy** Region – targeted support in Fort Dauphin	i) **Diana** Region – with extension of support to Nosy Be ii) **Atsimo Andrefana** Region – with extension along the RN7 corridor to include the Isalo National Parks (most visited national park in Madagascar) iii) **Anosy** Region– with extension along the RN12a up to Farafangana (in Atsimo-Atsinanana) to support targeted agribusiness value chains iv) **Sainte-Marie** new tourism pole – identified by the Ministry as "First Sustainable Tourism Destination" (Analanjirofo Region).	i) **Diana** Region ii) **Atsimo Andrefana** Region iii) **Anosy** Region– – with extension along the RN12a iv) **Sainte-Marie**; v) **Analamanga** Region as new addition (digital sector) vi) **Phased extension** to east coast zones (canal des pangalanes) to be scaled up gradually (see map in Annex 3)
Sectors & Constraints	Tourism, Agribusiness, Investment Climate reforms, Investment Promotion & Public Private Partnerships (PPP), Entrepreneurship, Governance, Infrastructure.	Same sectors, with additional support to trade logistics and competition policy in key agribusiness value chains.	Addition of digital sector as sector, and cross-cutting theme across agribusiness and tourism
Objective & Approach	PIC 2.1 supported ***economic recovery*** through improving the investment climate, increasing investor confidence, and restoring economic governance in Target Regions. The project used the *growth pole and corridor* approach, an integrated set of interventions designed to tackle all key binding constraints in anchor sectors and regions, taking advantage of agglomeration economies	PIC 2.2 will support ***economic expansion*** through the acceleration of private investment in, and deepening of the tourism and agribusiness sectors, and increased private participation in shared service delivery in Target Regions. The growth pole and corridor approach is maintained, prioritizing deepening investments and activities in existing areas, and extending strategically along the corridors/new pole (Sainte Marie) to maximize leverage of previous interventions	PIC3.1 will support **COVID-19 recovery** through the acceleration of private investment in, and deepening of the tourism and agribusiness sectors, the addition of the digital sector to boost digital firms and accelerate the transition to the digital economy. The growth pole and corridor approach is maintained, prioritizing deepening investments and activities in existing areas, and extending strategically along the corridors/new pole to Analamanga (for digital sector), and a pilot corridor East Coast (to be scaled up over series of projects), to maximize leverage of previous interventions and facilitate private sector recovery and growth
Types of interventions	- **Investment Climate (IC) reforms:** overall DB Investment Climate support, commercial justice and taxation. Key results include the elaboration of the Special Economic Zone	- **Sector-focused IC reforms**: focus on licensing, competition, commercial justice. - **Investment promotion** support targeted to Tourism lodging and Agri sectors.	- **Sector-focused IC reforms**: also with focus on supporting digitalization of key IC reforms. Key expected reforms include the elaboration of the Investment Code and the streamligning and

	PIC 2.1 (2015-2019)	PIC 2.2 (2019-2024)	PIC 3.1 (2021-2026)
IDA Financing	**US$50 million**	**US$70 million**	**US$150 million**
	(SEZ) law, the implementation of a One-stop Shop (OSS) in Diana and Atsimo- Andrefana region;the streamligning and digitalization of procedures at the commercial court which yielded positive results as captures by the Doing Business (DB) assessment. - **Investment promotion** support to Economic Development Board of Madagascar (EDBM) business plan, adopted by its board - **PPP framework**: develop the regulatory and institutional framework - **Support to entrepreneurship** with Madagascar Business Investment Facility (MBIF) window for young entrepreneurs startups (109 project supported)and creation/reinforcement of business centers - **Tourism:** support to national tourism institutions, marketing, support to air transport development, product development. Key output include the adoption of national Tourism policy letter and national Transport support to the management and rehabilitation of key tourism sites leading to increased revenues, prospections actions for hotel investments leading to around 16 letters of intent of investments, rehabilitation and improvement of water supply and key roads - **Agribusiness**: value chain structuration and organization (including through the implementation of key Public-Private Dialogue (PPD) platfoms in key value chains) , training and capacity building for local farmers, review and update of legal and regulatory framework, strengthen data collection and dissemination mechanisms, strengthen national institutions in capacity certification and quality standards. Key output include support to a total of 10,373 producers/farmers across seven main	- **Transaction support**: Conduct feasibility studies on transaction opportunities, including priority PPP projects. Work on the marina project in Nosy is ongoing. - **Boost to entrepreneurship and private investment** with three windows: business plan competition, tourism and agribusiness, and scaling up of business centers. January supervision mission noted that more than 100 entrepreneurs benefited from the BPC windows, and 20 projects under the MBIF agribusiness window are waiting final validation. - **Tourism**: support to national tourism institutions, product management and diversification, strengthening of key air and road connectivity infrastructure and services, sectoral coordination and capacity building. Support to the “Office National du Tourism de Madagascar” (ONTM) and review of Tourism code are underway, following the institutional review. Rehabilitation of key identified urban roads have been initiated. - **Agribusiness**: support to multi-stakeholders’ platform for quality control and market intelligence, support to anchor value chains and private sector-driven diversification and environmental sustainability, strengthening of key rural connectivity and quality infrastructure and services. Key outcome include the census and distribution of digital cards to more than 6,000 vanilla producers/farmers and the successful implementation of the National Vanilla Council. The rehabilitation of the Sambirano road (critical for cocoa) has started. - **Local governance**: boost revenue generation and investment planning to support the tourism and agribusiness sectors. 12 urban communal and inter-communal projects (which include water supply, lightening of public space with solar energy, rehabilitation of small feeder roads) have started.	digitalization of Government to business (G2B) services such as licensing, registering property, and business registration. - **Export promotion** support targeted to Tourism and Agri sectors and increased market access for digital sector. Key expected results include a better management and promotion of regional tourism destinations, support to the implementation of key agrologistic infrastructures, and dedicated training and program for SMEs in the targeted sectors. - **Boost to entrepreneurship and private investment** for all three target sectors, including cross-overs between digital, tourism and agribusiness. - **Tourism**: support to national tourism institutions for policy/regulatory reform, improved sector governance and monitoring and demand-driven planning; investments in local destination infrastructure, services, products, skills and overall management; strengthening of the tourism value chain; integration of digital technology. - **Agribusiness**: support to multi-stakeholders’ platform for improved value chain coordination and enabling environment, and market intelligence, strengthening quality infrastructure and services, promotion of products of Malagasy origin, promotion of market-driven and context-specific technologies as well as climate resilience, strengthening of key rural connectivity infrastructures and services, digital technologies for improved market access - **Digital:** support to this new sector, both in terms of digital startups and businesses (Business Process Outsoucing - BPO/ Knowledge Process Outsourcing - KPO), as well as start support to the digitalization of the

	PIC 2.1 (2015-2019)	PIC 2.2 (2019-2024)	PIC 3.1 (2021-2026)
IDA Financing	**US$50 million**	**US$70 million**	**US$150 million**
	agribusiness value chains (cocoa, cotton, sea cucumber, seaweed, (cape) peas, pink pepper and honey). - **Local governance**: strengthening the basics of governance: revenue mobilization, service delivery, accountability. Key results and outcomes include the implementation of land-related tax revenues software and capacity building for local authorities, contributing to the improvement of the Local Governance Index from 2.96 in 2015 to 5.35 in 2018		other two project sectors (agribusiness and tourism) under component 2 - **Local governance:** continued support to local governance to support the key project sectors, in order to ensure sustainability of project result in the regions. PIC 3 will capitalize and strengthen the positive experiences in preceding PICs.

ANNEX 5: Adjustments to the Country Program in Response to COVID-19 Madagascar

COUNTRY: Madagascar
Economic Transformation for Inclusive Growth Project

Recent developments

1. **The Trajectory of COVID-19 in Madagascar**: Madagascar registered its first case on March 22, 2020. As of April 11, 2021, a total of 28,541 cases and 506 total deaths (1.77 percent death rate); and 149,929 tests (39 percent positivity rate for April 11, 2021 on 1,229 tests) were registered. The second wave is hitting Madagascar severely as other countries in Eastern Africa and the second peak to date is approaching the first (experienced July 2020). Of grave concern has been the high increase in the rate of new positive tests (above 20 percent since mid-March 2021) and the low testing capacity overall (despite significant increase since mid-March): around 1,120 per day since April. The number of cases notified is increasing since early April 2021 (around 370 new cases per day). This increase has been linked to the relaxation of the COVID-19 preventive measures over the festive season, when people disrespected the rules on social distancing, on avoiding crowds, and on wearing masks. New measures were taken on April 3, 2021 to limit propagation of the COVID-19 (limitations of movement between regions and curfew in Antananarivo). All 22 regions in Madagascar have seen cases with most cases centered around Antananarivo city major cities. Hospital capacities are now overwhelmed in the capital city and lethality rate has increased.

2. **The COVID-19 crisis has triggered a deep recession and rising poverty.** Economic activity in Madagascar has been severely impacted by disruptions to global trade and tourism arrivals, and by domestic containment measures. As GDP contracted by an estimated -4.2 percent in 2020, similar to that observed during the 2009 constitutional crisis, the loss of jobs and income resulted in rising poverty, with informal workers and vulnerable populations in urban areas particularly impacted. While growth is expected to resume in 2021,[88] reaching a modest 2 percent, the impact of the pandemic will cast a long shadow on economic and social prospects and could be compounded by other shocks, including natural disasters and rising social discontent.

3. **Transmission Channels:** Spillovers from the global downturn and restrictions to domestic movement affected economic activity most notably through the following channels:

- **Trade.** Global trade and travel disruptions had a severe impact on previously high-performing sectors in Madagascar. This was reflected in a sharp contraction in export revenues in mining, tourism and textiles, which were important sources of growth and formal job creation prior to the crisis. Overall, goods export values fell by 20 percent in 2020, reflecting a drop in both volume and prices amid weakening external demand. Although there were no specific limitations to air and sea cargo, supply chains and access to raw materials were disrupted, further dampening activity in trade-oriented sectors. The decline in vanilla prices combined with importers' reluctance to make longer-term commitments in this context of high uncertainty are also likely to generate a larger volume of unsold vanilla stocks. Such situation will increase the vulnerability of the less resilient rural producers.

[88] Assuming a marked recovery in global demand during 2021 supported by the gradual deployment of effective vaccines and announcements of additional fiscal support in some countries, and a stabilization of COVID-19 cases and robust public investments in Madagascar.

- **Social distancing and travel restrictions:** Accounting together for almost 28 percent of Madagascar's economic output, the hospitality, transport, retail and real-estate sectors have felt the brunt of reduced movement, especially in urban areas, and the drop in international travel. Overall, 71 percent of surveyed companies reported a decline in the demand for their products and services in the first semester of 2020.[89] SMEs that have micro-enterprises or households as clients have reported stronger declines in revenues than the ones trading with larger companies. In response, businesses in Madagascar have cut wages, reduced working hours and laid-off workers or in some cases have been forced to exit the market altogether. By June 2020, around 32 percent of formal companies surveyed are estimated to have closed their doors (46 percent in the tourism sector), 7 percent permanently. Household surveys conducted in August 2020 indicate that 65.4 percent of respondents reported a loss of revenue since the start of the crisis.[90] Reducing food consumption was cited among the responses to lower income, thereby threatening long-term health for more vulnerable households.

4. **Extreme poverty increased significantly in 2020, with vulnerable populations in urban areas particularly affected.** Job losses in key manufacturing and service sectors, as well as the sudden loss of income for informal workers affected by lockdowns in major cities contributed to pushing a large number of people into extreme poverty this year. Against this background, the poverty rate (at US$1.9/day) is estimated to rise to 79.7 percent in 2020, up from 76.5 percent in 2019. Urban populations were more immediately affected by the COVID shock, but rural households were impacted as well by contracting demand, particularly for off-farm activities. The COVID-19 crisis also coincided with severe droughts in the Southern part of Madagascar, hampering livelihoods of at least 1.5 million people so far.

5. **The budget deficit increased sharply in 2020 but was mostly financed by additional concessional financing.** The sudden loss of fiscal revenues was a major driver of rising budget deficits in 2020, with the tax-to-GDP ratio falling back to 9 percent in 2020, its lowest level since 2012. On the spending side, government expenditures increased to reach 16.5 percent of GDP in 2020, notably driven by higher staff costs as salary adjustments were implemented and there was rising public investment. Overall, the fiscal deficit is estimated to have widened to 5.2 percent of GDP in 2020. The corresponding increase in fiscal financing needs from pre-outbreak expectations was covered by emergency budget support operations from development partners. Madagascar is also participating in the G20's Debt Service Suspension Initiative, although it only stopped debt service payments to bilateral official creditors from the G20 in the course of November 2020 due to administrative delays. The suspension is effective from June 2020 to June 2021. These various support measures and interventions are expected to help create fiscal space to address the economic and social consequences of the crisis.

6. **Currency pressures have been manageable and foreign exchange reserves remain adequate.** Adverse impacts of lower export revenues on the trade balance were partially offset by a drop in import values, reflecting lower demand for investment goods and a sharp decline in oil prices (oil imports account for 18 percent of total imports). The current account deficit nevertheless increased to 4 percent of GDP in 2020, while foreign direct investments weakened as well. Currency pressures increased amid rising external financing needs, with the Central Bank more than doubling its net foreign exchange purchases compared with 2019. However, comfortable reserves were maintained, bolstered by emergency budget and balance of payment support operations from development partners. The Central Bank operates under a flexible exchange rate regime but aims at preserving currency stability with targeted interventions.

7. **The financial sector has been affected by rising credit risks, but solvency remains generally sound.** Prior to the crisis, all banks fulfilled the minimum capital adequacy requirement, with a capital to risk-weighted assets ratio of

[89] Instat (Août 2020). Impact de la Covid-19 sur les activités des entreprises.
[90] Instat (Août 2020). Impact de la Covid-19 sur les conditions de vie des ménages. Vague 02.

13 percent on aggregate, well above a minimum of 8 percent. The impact of the pandemic has led to deterioration in liquidity and solvency indicators, particularly for microfinance institutions (MFIs), which serve most exposed sectors of society including MSMEs, informal businesses and households. MFIs experienced cash flow difficulties due to delay in loan repayment and deposit withdrawals at the beginning of the containment, though the situation has stabilized since mid-2020. The Banking sector has generally been more resilient but was also significantly affected by rising credit default rates. Proactive interventions of the Central Bank ensured the availability of adequate levels of liquidity, while banks were allowed to deduct loans to SME that have been restructured from regulatory reserve requirements. The extension of the existing Partial Portfolio Credit Guarantee Schemes for firms affected by the crisis has also helped.

Impact on Human Capital (Health and Education)

8. The COVID-19 pandemic created major challenges. Schools were closed for almost 7 months due to the containment period, affecting over 244,000 teachers and over 7 million learners including nearly 902,000 preschool children and 4.6 million elementary school students. During the school closure, 40 percent of households did not engage in any support activities for their children's education. This rises to 60 percent for the poorest quintile, which suggests that the lost schooling will most severely affect children from the most vulnerable families. School exclusion and inequality will likely be exacerbated as marginalized children, including girls and children with disabilities, are more likely to leave the schooling system permanently. Despite schools reopening since end of October 2020, Madagascar will need support to attract learners (especially adolescent girls) back to school, ensure a safe and sanitary environment in all schools, come up with remediating measures to catch up , and continue to strengthen distance learning to offer a more flexible modality for students not returning to schools that can be scalable and implemented quickly in the cases of emergency.

9. The COVID-19 outbreak has had an adverse and prolonged impact on health services' delivery and utilization, particularly Reproductive, Maternal, Child Health and Nutrition (RMCHN). Based on analysis of routine data, significant disruptions of health services utilization were observed, especially in April, May and October 2020: compared to expected levels, most RMCHN indicators show a significant drop between 7-24 percent in April 2020, between 7-17 percent in May 2020, and between 8-12 percent in October 2020. Particularly concerning is the impact of children immunization, with decreases of 20 percent for Pentavalent Vaccine (Penta)1, 23 percent for penta2 and penta3, 18 percent for Bacillus Calmette–Guérin vaccine (BCG), and 18-24 percent for polio in April 2020. An important impact of COVID-19 on the health sector has been the high rate of infection among health staff, especially in the first months of the pandemic when personal protection equipment was not sufficiently available. Overall, this translates to reduced availability of staff to deliver care, particularly in areas most hit by the pandemic putting additional burden on the health workforce, who are already overworked due to the general scarcity of health professionals, and whose levels of anxiety and fear are significant and requiring adequate measures to ensure their mental health and well-being. Other important factors explaining the reduction in the provision of other essential services on account of resources being shifted to control the pandemic and manage cases, and on limited use of services by patients who fear being infected in health facilities.

10. Urban and peri-urban populations have been particularly impacted by the COVID-19 crisis and economic lockdown. The economic consequences continue to be severe, as efforts to control the spread of the virus have limited access to income-earning opportunities, trade activities, and markets. Households have faced reduced purchasing power as incomes decline and market prices increase for some goods. The prices of food staples in urban markets are up to 50 percent higher than the five-year average due to supply and transport restrictions.[91] Many of the urban poor work in the informal sector and lack protections or alternative sources of income during periods of work shortages, and nearly three-quarters of households experienced a drop in business income in June 2020.[92] Resilience capacity is low, and many poor households have resorted to negative coping strategies including reduction of food and non-food expenditures and selling assets to cope with the lockdown.[93]

11. The **economic downturn due to the COVID-19 crisis, compounded by recurring natural disasters and chronic poverty, continues to threaten Madagascar's economic development and long-term stability.** The impacts of the crisis could reverse past progress in poverty reduction and deepen fragility. Prior to the current crisis, Madagascar was one of the poorest countries in the world and lagged on human capital indicators[94], including high rates of malnutrition, stunting, and children out of school. The coronavirus outbreak has intensified these challenges while pushing urban populations and notably women and youth, into positions of greater vulnerability due to strict confinement measures. Declining income per capita and rising inequality could sharpen the risk of social unrest, while the fiscal shock would also be heightened. Impacts of the current crisis on both poverty and stability could be compounded by further shocks, particularly from natural disasters.

12. **Women and girls in Madagascar were already limited in reaching their full potential, particularly in the areas of human capital, empowerment, and labor participation, before the pandemic.** There is strong evidence to suggest that women and girls in Madagascar will suffer from extreme and multifaceted negative secondary impact as a result of the COVID-19 crisis, including higher poverty rates, increase in unplanned pregnancies, a surge in school dropout rates and child labor of adolescent girls, loss of income and reduced financial empowerment, increased household work, reduced access to healthcare and Water Sanitation and Hygiene (WASH) alongside increased maternal deaths, and greater food insecurity and malnutrition. Rates of early marriage among girls under 18 in Madagascar were already among the highest in the world, and as of 2018, 40 percent of girls under 18 were found to be in marital unions.[95] Gender-based violence (GBV) is high, particularly in urban areas. Women are more likely to be excluded from financial services altogether, but in general rely more on informal financial services as compared to men.[96] These trends have made women even more vulnerable to income loss and exclusion due to the economic lockdown during the COVID-19 crisis.[97] Illiteracy rates among women are high, at 38.4 percent, compared to 34.2 percent of men.[98] These effects are compounded by restricted access to and use of productive and informational resources, as men are more likely to own cellular phones and have greater exposure to media and the internet[99].

Outlook and debt sustainability

13. **Growth in Madagascar is projected to recover in 2021-23, but at a gradual pace and will continue to face underlying constraints.** The global economic impact of the pandemic will persist in 2021 but assuming that new policy restrictions are able to contain community spread and vaccination campaign accelerate, global growth and trade are

[91] FEWS NET Key Message Update for Madagascar, July 2020.
[92] High Frequency Phone Survey results for Madagascar, June 2020. World Bank Group.
[93] *FEWS NET Key Message Update* for Madagascar, July 2020.
[94] As of October 2020, Madagascar has a Human Capital Index of 0.39, reflecting that a child born in Madagascar today will be 39 percent as productive when she grows up as she could be if she enjoyed complete education and full health.
[95] INSTAT-UNICEF, *Madagascar Enquête par grappes à indicateurs multiples* (MICS), 2018 (Madagascar Multiple Indicator Cluster Survey)
[96] http://documents1.worldbank.org/curated/en/789051532448517077/pdf/128782-REPLACEmENT-Digital-MEU-Fostering-Financial-Inclusion.pdf
[97] ONEF. 2017. *Les Femmes dans la Vie Active et dans les sphères Décisionnelles (Women in active life and in Decision-Making Spheres)*
[98] INSTAT-UNICEF, *Madagascar Enquête par grappes à indicateurs multiples* (MICS), 2018 (Madagascar Multiple Indicator Cluster Survey)
[99] High Frequency Phone Survey results for Madagascar, June 2020. World Bank Group.

expected to pick up in the course of the year. As global demand picks up in 2021, export and investments in Madagascar should regain some strength. However, the recession will leave a long shadow for businesses and households. In this context, growth is expected to remain subdued in 2021, at around 2 percent, which is insufficient to increase average income per capita levels. Overall, the crisis is estimated to have shaved over a two-year period about 13 percent to average income per capita when compared with pre-crisis expectations. In the baseline scenario, growth would bounce back to 5.8 percent in 2022 and stabilize at 5.4 percent in 2023-24, but the crisis will likely exacerbate constraints to growth associated with a lack of adequate infrastructure and human capital, poor governance, and limited capacity to respond to shocks.

14. The poverty rate should resume its downward trend over the medium term. A gradual economic recovery should allow poverty rates to return to a declining trend from 2022 onwards, but the crisis is estimated to have set the country back by a decade in its effort to alleviate extreme poverty, which remains among the highest in Sub-Saharan Africa. Over the medium to long term, the pace of poverty reduction will largely depend on the country's ability to facilitate formal job creation in off-farm employment, improve agricultural productivity and resilience to climate and other shocks.

15. Debt sustainability risks have increased but remain moderate. The projected economic recovery in 2022-24 should result in gradually declining budget deficits, from an estimated 5.2 percent of GDP in 2020 to 3.2 percent in 2024. The main driver of this decline will be a recovery in government revenues, offsetting accelerating public investments, particularly in infrastructure. In this context, public debt is projected to stabilize around 52 percent of GDP in 2024, following a sharp increase in 2020 and 2021. External debt distress risks have increased in recent months from low to moderate, but baseline projections for key external debt and debt service ratios remain well clear of risk thresholds considered for Madagascar. This was confirmed by a joint International Monetary Fund-World Bank Debt Sustainability Assessment in March 2021 as part of the preparation of the new International Monetay Fund Extended Credit Facility (ECF) program, although pointing that additional export or growth shocks could generate liquidity problems unless mitigated by additional revenue mobilization and continued reliance on concessional financing. The assessment takes into account the authorities' participation in the G20's Debt Service Suspension Initiative. The current debt risk profile for Madagascar still makes plans to scale up priority investments appropriate but calls for prudent borrowing policies and fast-track reforms to boost revenue mobilization and public spending efficiency. Impacts of the current crisis could be compounded by further shocks, particularly from natural disasters or periods of social or political unrest. [100]

Financing needs

16. A Multisectoral Emergency Plan was adopted in July 2020 under the Prime Minister's office. The plan aims to (i) control the spread of the virus and stem the pandemic; (ii) help vulnerable populations and respond effectively to their needs; and (iii) protect the economy, maintain human capital, and facilitate the recovery. The plan is funded by the state budget and the donor community, building on emergency responses in health and social protection. As of February, 15 2021, the financing gap of the Prime Minister's Delivery Unit (PMDU) is estimated at US$107 million (out of US$826.1 million for the overall budget, 536.4 million excluding infrastructure), of which 36 million for health sector spending, 28 million in agriculture, 12 million in water and sanitation, 11 million in nutrition, and 11 million in transport.

Government response

17. The authorities acted promptly by declaring a State of Emergency on March 21st 2020 including closing schools, suspending events, limiting inter-regional traffic, closing borders, and limiting activity of private companies and public institutions. A multitask Operations Command Center led by the Ministry of Interior and Decentralization was also set up to coordinate the Government response. Measures to enhance resilience to shocks were and are being implemented through the preparation of a health security plan to respond effectively to future epidemics and progress toward the operationalization of the National Disaster Fund.

18. More specifically, lockdown measures were put in place on March 22nd 2020 for the four most affected regions including Antananarivo, Toamasina, Fianarantsoa and Alaotra Mangoro. The State of Emergency was extended fourteen times until October 3rd, 2020. Lockdown measures were loosened up from end of May till end of June 2020. Following these release measures, there was a resurgence of cases of COVID-19 on July 6th 2020 for a period of one month and subsequently the authorities imposed a second lockdown in the capital of Antananarivo. On August 9th 2020, the authorities, judging that the peak of the epidemic had been reached, decided to start re-opening gradually. Although the State of Emergency and curfews were sustained, government offices, private and public companies were allowed to resume gradually. Schools were allowed to carry out official examinations since September onwards. On October 18th2020, the government decided to lift the State of Emergency. Wearing of masks in public remains mandatory, and most businesses and offices have implemented measures such as providing hand sanitizer and temperature screening. Restaurants, bars, beaches, parks, and public transportation are also open. However, borders are still closed and international traffic are still suspended with the exception of repatriation of Malagasy and residents.

Government Measures to Support Households and Firms during the COVID-19 Crisis

19. An expansion of social protection programs is underway to support the livelihoods of the most vulnerable amongst the population. This includes a significant expansion in urban areas where social distancing measures are having the largest impact on incomes. Overall, the number of beneficiaries of social safety nets is set to increase from 2.5 million currently to 3.9 million people. Innovations in the targeting program are being introduced to rapidly identify beneficiaries through spatial poverty mapping and to expedite access to transfers by using mobile money transfers.

20. The government's response also seeks to safeguard livelihoods by providing support to SMEs and to ensure that the banking sector has sufficient liquidity to support the private sector.

21. A set of fiscal measures have been implemented to support firms, including:

- Temporary suspension of payment of installments and postponement of payment declarations for firms operating in the tourism and transport sectors and enterprises operating under free processing zones
- Temporary deferral of payment of income tax
- Temporary deferral of declarations and payment of the synthetic tax
- Temporary suspension of tax audits and notices to third-party holders
- Authorization to repatriate currencies up to 80 percent without penalty
- Use of amicable payment conditions for social security contributions due for the first and second quarters of 2020

22. **In** addition, the Multisectoral Emergency Plan envisages to support firms through:

- the provision of training to 200,000 formal employees

- support for intercompany medical services to ensure the continuity of care services for employees, and to advise and train companies to better protect employees in the workplace
- subsidized loans to support the cash flow of 20,000 entrepreneurs and MSMEs
- communication and promotion actions to develop national and international markets.

23. Health and sanitation measures include in particular:

- Simplification of import procedures for medicines and medical equipment.
- Increased surveillance, testing and case management capacity, including infection prevention and control measures in health facilities and laboratories.
- Initiation of protocol development for continuity of essential services.
- Public communication campaign for prevention and test/detection updates.

24. Social Protection measures include:

- Expansion of the number of beneficiaries of social protection programs from 2,500,000 to 3,900,000 households.
- Simplifying ID requirements for mobile money transfers to social protection beneficiaries.
- Monitoring of market prices to curb opportunistic pricing.

25. Measures to support the financial sector:

To alleviate pressure on SMEs and household cash flows, banks and microfinance institutions were encouraged to reschedule loan repayments for three months, and banks were allowed to deduct a similar amount from their reserve requirements. Exceptional liquidity has also been provided to the financial system, conditioned on an increase in credit to companies. The Central Bank kept an accommodative monetary policy stance throughout 2020 and 2021. The monetary policy response to the crisis has consisted of providing liquidity to commercial banks and the relaxation of some mandatory deposit limits to encourage banks to reschedule repayment on existing loans and boost credit to corporates. The Central Bank also implemented targeted foreign exchange interventions to alleviate currency pressures while maintaining ample reserves.

World Bank Support for responding to the crisis

26. The World Bank Group has adjusted its Country Partnership Strategy in response to COVID-19. The significant impacts of the pandemic on Madagascar have had a major impact on Madagascar's development financing needs over the next two years requiring adjustments to the WBG country program.

27. World Bank support under the Relief Phase has required an additional US$351.76 million in IDA and non-IDA financing that was not anticipated under the CPF in FY21. In addition to the COVID Emergency DPO (US$75m), an additional financing to the Improving Nutrition Outcomes Project Using the Multiphase Programmatic Approach (P174669) (US$1.76m), an additional financing to the Madagascar Basic Education Support Project/Emergency project of the GPE (P160442) (US$15m) and the Support to COVID-19 vaccine purchase and health system strengthening (P174635) (US$100m) are all new interventions not envisaged in the CPF. This phase of the response mobilizes resources from within the portfolio through activation of CERC and restructuring and scaling up of existing programs. The World Bank has allocated US$169 million to support the Government's health, social, education, water and sanitation plans, and leveraged an additional US$123 million to finance the Multisectoral Emergency Plan through other CERCs. Support to the agricultural sector, including the rice sub-sector, will be provided through an IPF which will finance measures to increase agricultural productivity and food security. Most project resources reallocated and mobilized for pandemic response through activation of CERC components have been replenished through additional financing operations during FY21. The Least-Cost Electricity Access Development Project (P163870) will support the electrification of approximately 500 of the 1,250 public Health centers that remain unelectrified. The lack of well-equipped rural health centers is a major challenge for public health in Madagascar. It disproportionally affects rural areas, the poor, and female-headed households. By electrifying 500 rural health centers (40 percent of unelectrified Basic Health Centers [Centre de Santé de Base, CSB] II) across the country—mostly through off-grid technologies—the project will directly contribute to increasing the types and quality of health services available to the most vulnerable parts of the population. The project will enable lighting, refrigeration, sterilization, and other services that can significantly improve the quality of rural health care provision. The first phase with 50 Health centers is ongoing and works are expected to be completed by the end of 2021. This is further detailed below in table 1.

28. The Restructuring Phase is supported by new activities in education, pandemic preparedness, urban and rural resilience, and digitalization. The Global Partnership for Education (GPE) is providing an additional US$32 million in financing for the Basic Education Project in order to ensure educational continuity at home during the pandemic-induced confinement period, prepare for reopening of post-containment classes and strengthen the resilience of the system in the face of shocks, including natural disasters or health crisis. A new Pandemic preparedness and basic health services delivery Project (P174903) US$150m including US$19 million from the Global Financing Facility, will support government's efforts to implement the recommendations of a recent assessment of the country global health security systems and further reinforce the country's capacity to respond to future pandemics of COVID-19 magnitude. The new Resilient Livelihoods in the South of Madagascar project (MIONJO) (P171056) (US$100m) notably seeks to improve access to basic infrastructure and safe water, support livelihood opportunities and strengthen local governance in southern Madagascar with a primary focus on youth and women. The COVID-19 crisis has strengthened the role of WASH services to prevent the spread diseases and support livelihoods. Building on a strong track record in social protection, a social protection project has been brought forward from FY23 to help build resilience to future shocks. These 3 new operations responding to the pandemic were not envisioned in the CPF program. An AF to the Integrated Urban Development and Resilience project (P175087) US$ 50m, will enhance urban living conditions and flood resilience in selected low-income neighborhoods of Greater Antananarivo; and to improve the Recipient's capacity. The Digital Governance and Identification Management System Project (PRODIGY) (P169413) US$140m is a CPF operation that was adjusted to new circumstances. Altogether, this Phase of the response adds US$300 million in financing that was not anticipated in the CPF while US$345 million is as planned in the CPF.

29. The Resilient Recovery Stage is geared towards reinforcing infrastructure and private sector development. Of the US$1.1 billion in IDA Financing earmarked towards the recovery phase, US$1 billion are operations that will be delivered as planned with adjustment in design to increase resilience and take advantage of new opportunities to ensure a more sustainable, inclusive and resilient future in a world transformed by the pandemic. In addition, , the AF to the Madagascar Integrated Growth Poles and Corridor SOP-2 Project (P175172), US$ 33m, is part of a strongly complementary approach whereby the ongoing Madagascar Integrated Growth Poles and Corridor SOP-2 Project (P164536) was restructured to scale-up immediate support to the private sector during the COVID-19 crisis, with additional funds from the portfolio-level CERC. The here proposed Economic Transformation for Inclusive Growth Project (P174241) US$150m will provide significant support for the subsequent economic recovery, with an expanded sector and geographical coverage, and a focus on economic transformation including through digital entrepreneurship. Infrastructure related projects, a key pillar of the economic recovery, have been postponed until FY22 to accommodate the program changes outlined above.

30. **In** line with the World Bank Group COVID-19 Crisis Response Approach Paper from June 2020, resources have been realigned to support priority actions around the following four pillars (i) saving life, (ii) protecting poor and vulnerable people, (iii) ensuring sustainable Business growth and job creation and (iv) Strengthening Policies, Institutions and Investments for Rebuilding

31. Program adjustments include: i) reallocation of portfolio resources through activation of CERC and restructuring and reallocations of existing programs; ii) developing new operations responding to the pandemic that were not envisioned in the original CPF program (for example, Pandemics preparedness program); and, iii) reprioritization of the CPF pipeline to advance operations that were planned for later years (from FY22/23 to FY21) while delaying selected new operations in infrastructure.

Table 5.1. World Bank COVID-19 Support

Areas of Intervention	IDA Amount Cost	Co-financing	Delivery
	(US$, millions)		
Pillar I: Saving Lives			
CERC/AF Improving Nutrition Outcomes Project Using the Multiphase Programmatic Approach (P174669)	20		Delivered FY20
Support to COVID-19 vaccine purchase and health system strengthening Support to Vaccines (P174635)	100		FY21 Q4
Madagascar COVID-19 Response DPO (P1743880)	75		Delivered FY21
Pillar 2: Protecting Poor and Vulnerable People			
Restructuring/reallocation of Madagascar Social Safety Net Project (P174886)	10		Delivered FY20
Restructuring/reallocation Financial inclusion project (P161491)	6		
AF Madagascar Basic Education Support Project/Emergency project of the GPE (P160442)		15	Delivered FY21
Second AF Improving Nutrition Outcomes Project Using the Multiphase Programmatic Approach of Nutrition MPA (P174669)- PEF facility (TF)	1.76		Delivered FY21
AF COVID response under Madagascar Social Safety Net Project (P174886) (Adj. to pipeline advanced from FY23 to FY21)	150		Delivered FY21
Support for resilient livelihoods in the South of Madagascar (P171056)	100.0		Delivered FY21
AF Madagascar Basic Education Support Project/GPE ((P160442)	32.0		Delivered FY21
Phase 2 AF Improving Nutrition Outcomes Project Using the Multiphase Programmatic Approach of Nutrition MPA (P175110)	150		FY22 Q3
Girls Empowerment and Human Capital Development In Madagascar (P176393)	150		FY23 Q1
Madagascar DRM and Resilience Project	150		FY23 Q2
Agriculture Productivity Program (P175269)	150		FY22 Q2
Madagascar National Water Project (P174477)	150		FY22 Q2
Pillar 3: Ensuring Sustainable Business Growth and Job Creation			

Areas of Intervention	IDA Amount Cost	Co-financing	Delivery
	(US$, millions)		
Integrated Growth Poles and Corridor SOP2 - AF (P175172) (adjusted pipeline advanced from FY23)	33		Delivered - FY21
Integrated Urban Development and Resilience Project for Greater Antananarivo - AF (P175087)	50		Delivered - FY21
Madagascar Economic Transformation for Inclusive Growth (P174684)	150		FY21 Q4
Madagascar Road Sector Sustainability Project (P174378)	200		FY22 Q4
Pillar 4: Strengthening Policies, Institutions and Investments for Rebuilding Better			
Reallocation Urban Development and Resilience Project for Greater Antananarivo (P175087)	1		Delivered - FY21
Integrated Urban Development and Resilience Project for Greater Antananarivo - AF (P175087)	50		Delivered - FY21
Madagascar COVID-19 Response DPO(P174388) (P174388	75		Delivered - FY21
Digital Governance and Identification Management System Project- PRODIGY (P169413) -		140.0	Delivered - FY21
Investing in Human Capital Development Policy Financing (P1743880)	150.0		Delivered - FY21
Regional Statistics Project (P code tbd)	25		FY22 Q3
DPO series on fiscal management	150		FY23 Q1
Investing in Human Capital Development Policy Financing II (P171460	150.0		FY22 Q2
Connectivity for Rural Livelihood Multiphase Programmatic Approach (MPA)	400		FY22 Q4
Digital Madagascar Project (P code tbd)	150		FY23 Q2
Madagascar Governance Decentralization (P code tbd)	150		FY23 Q2

Selectivity, Complementarity, Partnerships

32. The **overall World Bank Group response, is aligned with the Government's Multisectoral Emergency Plan as well as the activities of other development partners.** The World Bank is playing a critical role to further strengthen development partner response. These efforts have paid off, resulting in a coordinated response on budget support measures. Similar efforts were carried out to rally development partners around the response on health, social protection and private sector which are financed through a coalition of development partners and leveraging the donor coordination platforms. The Multisectoral Emergency Plan has served as a platform for identifying priority needs and coordinating donor support

33. **Other donors committed significant resources to support the Government's emergency response.** Major bilateral donors included China, France, Norway amongst others, while multilateral donors included World Health Organization (WHO), United Nations Development Programme (UNDP), African Development Bank (AfDB) and the European Union (EU). Among the largest, donors, the AfDB committed a total of US$61 million through the Special Relief Fund, the African Development Fund and the Transition Support Facility, while the European Union has allocated €24 million (US$28.5 million) in funding for health, social, and tourism, activities, while other donors committed a combined US$129.5 million in additional funding.

34. The **World Bank COVID-19 response is closely coordinated with the IFC response**. In line with the Approach paper, IFC's strategy supports the country COVID response through (i) emergency help focusing on agriculture for livelihoods and jobs, light manufacturing for health response, and financial sector support; (ii) help on restructuring through assistance to the financial sector, corporates and key sectors, and advisory to government on private sector support; and through (iii) recovery, where IFC will help mobilize private investment by supporting the expansion of access to power, the development of sustainable railroad and port infrastructure, by helping to build competitive global value chains, and by leveraging digital platforms to support smallholder farmers and MSMEs. IFC has continued disbursing in the agribusiness sector (US$3.3 million) in support of small holder farmers and has been deploying its available SME risk sharing facility (US$6 million) with a systemic bank as a crisis response. It is also in negotiation with a systemic bank for a medium-term loan (US$10 million). Furthermore, IFC is at different stages of discussing new financing and early disbursements for clients in the agriculture and financial sectors (for a total amount of US$19.3 million).

35. **Further adjustments to the country program in response to heightened fragility risks are also planned**. Beyond the regular IDA envelope for Madagascar, additional resources will be available through the Scale Up facility, which is particularly adequate for infrastructure projects, and regional integration programs, including for DRM and women empowerment, the new IDA 19 Crisis Response Window Early Response Financing that will address food security challenges in the South of Madagascar. From an operational viewpoint, procurement compliance and client's ownership during projects' preparation is key, emphasizing the need for continued training of civil servants, more effective use of PPA and propagation of best practices on implementation of operational procedures. Any bottlenecks should be addressed to maintain the Country's fast delivery.

ANNEX 6: Climate Vulnerability, Adaptation, and Mitigation

COUNTRY: Madagascar
Economic Transformation for Inclusive Growth Project

A) Project Climate Vulnerability Context

1. **Madagascar is among the countries most exposed to disaster risks, which climate change is exacerbating.** Its location, topography and socioeconomic conditions combine to mean that Madagascar is highly vulnerable to climate change and extreme weather events, with cyclones, flooding, and drought posing the greatest risks in different parts of the country. The pandemic has placed additional pressure on natural resources by reducing the available public funding to manage protected areas at the same time that the economic downturn has enhanced the incentives for poaching, deforestation and other illegal activities. It has been estimated that in 2020 relative to 2019, there was a 26 percent increase in poaching traps, an eight percent increase in illegal harvesting of precious woods, and a near-doubling of the total area deforested just within Madagascar National Parks sites.

2. **The Government of Madagascar has committed to climate change through the adoption of a national law in 2011, Madagascar's National Policy to Combat Climate Change, which has as its primary goal to "strengthen adaptation to climate change".** Madagascar's NDC[101] highlight the following aspects, among others: (i) Reinforce renewable energy; (ii) Improve energy efficiency; (iii) Rural electrification; (iv) Large scale implementation of conservation agriculture and climate-smart agriculture. The country also developed sector specific legislation in agriculture, livestock and fisheries (under the Ministry in charge of agriculture) which was adopted in 2013. This strategy has four aspects: (i) adapting agriculture, livestock, fishing to climate change; (ii) generating socioeconomic benefits via mitigation for agriculture-livestock-fisheries; (iii) developing a sustainable financial mechanism for adaptation actions on agriculture-farming-fishing; and (iv) promoting applied research and technical innovations to agriculture-livestock-fisheries.

3. **However, modest progress had been made in enhancing environmental sustainability even before the pandemic, and the pandemic has worsened the situation.** The bulk of Madagascar's population remains dependent on a range of natural resources for their livelihoods. For instance, 80 percent of the population depends on agriculture as their primary source of income. Yet the country also remains highly vulnerable to the impacts of climate change and risks of natural disasters. Population growth has increased demand for agricultural land both for subsistence production and for cash crops and has consequently increased the pressure on forests. Poor soil management in areas outside of forests reinforces the incentives for land clearing in forest areas where the soil is more fertile.

4. **Also, the country's progress in tackling high overall poverty has been hampered by limited reduction in reducing rural poverty because of low and declining agricultural productivity.** Poor market access in rural areas and the vulnerability of agricultural production to climatic shocks were the main reasons for stagnant productivity. Most rural households are engaged in low-productive subsistence agriculture while experiencing food insecurity. Lack of access to finance, information about markets and production approaches, critical infrastructure such as feeder roads, weak logistics and high margins of intermediaries all contribute to low incomes and productivity of smallholder farmers. Climatic shocks in Madagascar are particularly damaging to rural and agricultural activities due to the continued dependence on rain-fed agriculture, physical isolation and limited access to social safety nets.

[101] UNFCCC, Madagscar's Intended Nationally Determined Contribusions

B) Project contribution to climate change adaption and mitigation

5. **As highlighted in the National Climate Change strategy, the GoM's priority is to increase resilience, including the reduction of climate risks.** The project supports climate mitigation and adaptation strategies in compliance with the World Bank Africa Climate Change Business Plan and related green resilient and inclusive development (GRID) strategy. The project's efforts have the following foci: (i) promoting the adoption of climate-friendly processes, clean technologies, renewable energy sources and waste management within supported MSMEs and entrepreneurs across the three project sectors (under components 3.1 and 3.2), (ii) applying climate standards in productive small scale infrastructure investments supported by the project[102]; and (iii) providing technical assistance and capacity building under each project components on climate aspects, following the climate change business plan guidance. The project specifically contributes to the following elements: upgrading to cleaner technologies, specific sector resilience, climate-resilient construction practices, promotion of responsible resource use, disposal and reuse, environmental certifications, promotion of private sector investments in renewable / sustainable energy.

Table 1: Specific project activities to address climate change vulnerability

Component 1. Attracting and Retaining Private Investment and Removing Key Constraints to Support Recovery (US$13m equivalent)

Focus area	Description of Climate linked activities
Streamlining Investment Promotion Support to accelerate recovery; Strengthening the business environment to contribute to recovery	The increase of regional and national's agencies capacity will follow guidelines set out by the World Bank Africa Climate Change Business Plan, including, among others: Building capacity to mainstream climate change in coordinating stakeholder platforms and working groups. Ensuring strategies and policies developed (national and sector) with the assistance of the project are climate informed.

Component 2: Removing Constraints for Private Investment and Enhancing Local Economic Competitiveness to support recovery (US$83m equivalent)

Focus Area	Description of Climate linked activities
Technical support to strengthen the competitiveness of value chains in the target regions	- Technical support to strengthen competetiveness of value chains will also focus on adopting climate-friendly processes across the three target sectors. More specifically, these may include the following: - Agribusiness value chain solutions that address climate positive aspects of production (energy and water reduction or conservation production methods, use of sustainable energy sources for production (solar, solar water pumps, and so on), where relevant. - Agriculture and fisheries: promotion of conservation agriculture, use of enhanced climate-resilient seeds, organic fertilizers, sustainable irrigation infrastructure and drip irrigation, aquaculture, and global environmental certification. - Identification, through a tourism value chain analysis, of gaps and opportunities for supply of "green" materials and equipment for the tourism sector (for example, equipment for solar energy, equipment for greywater reuse). - Training for tourism business owners and workers on environmentally-responsible practices to mitigate climate change contributions, for example, innovative waste management, responsible energy and water consumption, water reuse. - Training for tourism attraction managers on site-level carrying capacities and responsible visitation practices to be promoted. - Potential scaling up of Strategic Environmental and Social Assessments and/or natural capital assessments for tourism destination development (piloted under PIC2.2) to improve valuation of natural capital and sustainability of its integration in tourism development. - Support to diversification of products/activities to reduce seasonality of tourism (impacted by extreme weather events).

[102] Green or climate-friendly business areas include low-carbon paths to development, efficient use of non-energy raw materials, adoption of relevant products and technologies to meet international commitments or environmental standards in global markets, adoption of environmental and related management systems as a requirement for entry into global markets.

Focus Area	Description of Climate linked activities
	- Technical support to explore integration of climate change-related messaging into regional destination promotion activities (for example, "towards carbon neutrality").
Strengthening local infrastructure to support the growth of target sectors and business development	The support to targeted infrastructure upgrades to improve opportunities for sector growth will incorporate the following actions: - Priority will be given to infrastructure improvements with demonstrated sound environmental sustainability (that is, inclusion of climate mitigation or adaptation factors) in their design, such as the use of renewable energy sources, roads constructed taking into account climate vulnerabilities, and so on. - Technical designs will ensure resilient small scale infrastructure and address climate change impacts due to adverse weather conditions / extreme weather events. - Construction specifications for infrastructure improvements will enable reduction of energy consumption and waste , through inclusion of applicable efficiency requirements, and renewable energy where feasible.
Strengthening local governance to support sectors growth and business development	The support to targeted building upgrades and other small infrastructure will incorporate the following actions: - Construction specifications for building upgrades will enable reduction of energy consumption and waste, through inclusion of applicable energy efficiency requirements, and renewable energy where feasible; improve water resource management where relevant; and reduce waste where feasible /applicable.

Component 3. Supporting SMEs and Entrepreneurship Recovery and Growth in target sectors (US$45m equivalent)

Focus Area	Description of Climate linked activities
Direct Support to Start-ups and SMEs in targeted sectors	To support nascent or scaling firms, the project will incorporate the following climate-informed measures: - (Window 1) Soft skills and personal initiative trainings will include relevant climate adaptation and mitigation aspects for the businesses (reduction in use of water, sustainable energy sources, reduction in waste generation, climate -smart production processes, and so on). - (Window 2) Capacity building programs will include sustainable and climate resilience business capabilities for points such as energy efficiency improvement; water resource management; waste reduction; reduction of environmental degradation. - (Window 3) Catalytic grant investments applying climate-resilient standards, notably to all public and semi-public good investments (roads, storage facilities, energy provision, water provision, nd so on). - Funding provided through all three windows will screen for climate-resilience and climate mitigation and adaptation benefits: the selection criteria for businesses to benefit from the project's firm level interventions will prioritize those aiming at improving their climate resilience and adaptation features. Likewise, grants for technology adoption will favor investments in green equipment.
Strengthening Firm Capabilities through Ecosystem Upgrading	To support business development support providers and intermediary organizations, the project will include the following climate-informed aspects: - Soft skills and personal initiative trainings will cover relevant climate adaptation and mitigation aspects for the businesses (reduction in use of water, sustainable energy sources, reduction in waste generation, climate-smart production processes, etc.). - Other trainings on using digital solutions, financial services, technical knowledge for workers, and sector -specific skills (for example, hospitality) will offer dedicated content to climate resilience and risk mitigation (for example, Eco-Tourism values) - For small works financed, including facility upgrades, support will be prioritized to energy efficiency improvements in lighting, appliances and equipment (e.g. computers), including energy-management systems.

C) Actions outlined above will be measured through the following climate indicator:

Number of infrastructure investments supported by the project that apply climate resilience standards	Number of infrastructure investments supported by the project that apply climate resilience standards	Yearly	PIU