



Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 16-May-2017 | Report No: PIDISDSC21554



BASIC INFORMATION

A. Basic Project Data

Country Madagascar	Project ID P161491	Parent Project ID (if any)	Project Name Madagascar Financial Inclusion Project (P161491)
Region AFRICA	Estimated Appraisal Date Oct 05, 2017	Estimated Board Date Dec 14, 2017	Practice Area (Lead) Finance & Markets
Financing Instrument Investment Project Financing	Borrower(s) Ministere des Finances et du Budget	Implementing Agency Banque Centrale de Madagascar	

Proposed Development Objective(s)

The development objective is to improve financial inclusion in Madagascar and increase access to credit for micro, small and medium enterprises.

Financing (in USD Million)

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

Environmental Assessment Category F-Financial Intermediary Assessment	Concept Review Decision Track II-The review did authorize the preparation to continue
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B. Introduction and Context

Country Context

Madagascar is an island nation blessed with many assets. However, repeated political crises have held Madagascar back. Madagascar’s poverty rate is today among the highest in the world. The average Malagasy is 42 percent poorer today than she was in 1960¹, the year of Madagascar’s independence. As of the latest data available (2012), only 30 percent of Malagasy live above the national and only 10 percent above the international poverty line.

¹ Measured in real GDP per capita. Only DRC and Liberia fared worse than Madagascar over the 1960-2010 period.



Since the return to constitutional order in early 2014, the country has put itself back on a positive development track. The elected government that took office in 2014, after a five-year long political crisis, has made tangible progress in implementing its 2015-2019 National Development Plan (NDP). The NDP focuses on (i) improving governance and restoring the rule of law, (ii) addressing Madagascar's high rate of poverty and (iii) promoting private sector growth and attracting investors to generate growth and employment. Macroeconomic stabilization has been supported by two consecutive IMF Rapid Credit facility (RCF) programs, followed by a six-month IMF staff-monitored program and an ongoing three-year extended credit facility (ECF) program that started in 2016. Madagascar's macroeconomic reform agenda was further supported by the World Bank's Reengagement DPO in 2014, the Resilience DPO in 2015 and the on-going 2016-17 Fiscal Sustainability & Investment programmatic DPO series².

Sectoral and Institutional Context

The Malagasy financial sector, particularly the banking sector, has shown a remarkable resilience in times of crisis and is entering this new period of economic growth on sound footing. This resilience of the banking sector is primarily explained by conservative financing policies and solid governance structures – while regulatory and supervisory arrangements need to be further strengthened. Madagascar's Microfinance Institutions (MFIs) have experienced rapid growth, though some institutions face governance issues and the sector will need to consolidate further.³

Madagascar needs to leverage these positive developments to promote financial inclusion. Many Malagasy households remain excluded from access to basic financial services, which could provide a key source of resilience – allowing households to buffer shocks by drawing down on savings and taking loans. Access to credit for enterprises - particularly for micro, small and medium-sized enterprises (MSMEs) - is constrained and interest rates are high, which constrains employment opportunities for the poor and the development of a more competitive private sector. The recent growth of e-money, in particular, indicates the potential for broader financial inclusion, reaching MSMEs and poor households outside the urban centers.

Relationship to CPF

This project addresses the resilience (pillar 2) as well as the employment and competitiveness (pillar 3) objectives of the 2011 Interim Strategy Note (ISN) for Madagascar. By promoting access to and usage of formal savings and credit institutions, the project offers households and enterprises opportunities to smooth out shocks. Credit offers the opportunity to start and scale-up new businesses, allowing for job creation in Madagascar and creating the foundations for a competitive Malagasy private sector.

² Support was also provided by other donors (the African Development Bank, France, and the European Union provided policy based support) to reinforce Madagascar's progress.

³ The FIRST-funded "Microfinance Supervision Project", implemented by the World Bank, is helping the CSBF to build its regulation and supervisory capacity in the microfinance sector.



The 2016 Systematic Country Diagnostic (SCD), which serves as basis for the new Country Partnership Framework (CPF) FY17-21 currently under preparation, also identifies access to finance as key constraint. As major constraint for private sector development, the SCD identifies broadening of financial access as measure with large poverty impact over the long run and with a strong evidence base.

C. Proposed Development Objective(s)

The development objective of this project is to promote financial inclusion in Madagascar by (i) broadening access to transaction accounts and (ii) increasing credit access for MSMEs.

Key Results (From PCN)

The key expected results are (i) greater access and usage of transaction accounts and (ii) broader credit access for MSMEs in Madagascar. The key outcome indicators reflect these expected results. The project will evaluate the number of bank, MFI and mobile accounts per 1000 inhabitants, as well as the number of transactions and the volume of deposits on these accounts. The project will also assess credit issued to MSMEs as well as the subsequent quality and performance of these loans.

D. Concept Description

This project proposes to finance activities to support financial inclusion in Madagascar over four years for US\$45 million. Under component 1, the project will aim to encourage access to basic transaction accounts for households and enterprises. Under component 2, the project will aim to expand credit to MSMEs. Under component 3, the project aims to strengthen institutional capacity by (i) supporting the CSBF in undertaking a restructuring of the microfinance sector and (ii) promoting financial literacy and financial consumer protection. Finally, under component 4, in addition to project management through the establishment of a project implementation unit, the project will also conduct an impact evaluation of the different interventions.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

This is a national level project.

B. Borrower's Institutional Capacity for Safeguard Policies

The Malagasy Environmental law mentions that Environmental Assessment for both private and public developments is regulated under Degree N° 2004-167 (MECIE) Under National Environment Office (NEO). This is fairly effective for most of private investment sector but institutional capacity needs to be developed to ensure more widespread application and improved monitoring. The proposed project will not finance a specific set of pre-identified investments under Component



2. A guarantee will apply to a portfolio of loans extended by PFIs to MSME; the on lent funds will be mobilized by the PFIs themselves. No specific sector has been identified and PFIs will lend at market conditions. The PFIs should require as criteria to have access to portfolio the conformity with environment national law and correct appropriation of required mitigation measures during investment cycle.

The Borrower has a long standing experience in implementing Bank funded investments throughout the implementation of the current ACGF - Madagascar Financial Services Project. An ESMF was operational with an Exclusion List of Activities (ELA) which were sub-projects/activities that are ineligible for access by the local banks to the project's partial guarantee.

The project coordinator Unit and SOLID were trained by the World Bank’s safeguard team to implement the EMSF. It was noted a correct implementation: (i) due diligence to identify ELA and ineligible activities; (ii) activities classified as Category B, according to World Bank OP 4.01, where the proposed subproject/activity presented by the PFIs to be registered under the PPCG has received an environmental license delivered by the Malagasy Environmental Authority (National Office of Environment) and implemented in a manner satisfactory their Environmental and Social Management Plan (ESMP); and (iii) activities classified as Category C according to World Bank OP 4.01(i.e. negligible or no environmental and social impacts).

C. Environmental and Social Safeguards Specialists on the Team

Paul-Jean Feno, Social Safeguards Specialist
Peter F. B. A. Lafere, Social Safeguards Specialist

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	<p>The proposed project will not finance a specific set of pre-identified activities under Component 2. A guarantee will apply to a portfolio of loans extended by PFIs to MSME; the on lent funds will be mobilized by the PFIs themselves. No specific sector has been identified and PFIs will lend at market conditions. Partial coverage of the credit risks on loans to MSMEs, could possibly pose environment, health and safety issues and hence OP 4.01 (Environmental Assessment) is triggered.</p> <p>As sub-projects/activities to be financed under the credit of local banks for partial guarantee have not yet been identified during the project preparation, the existing Environmental and Social Management Framework (ESMF) should be updated for the Project. The ESMF will set forth the principles and guidelines to be followed by the borrowers to comply with the requirements of the triggered policy. It includes a mechanism to review and conduct an environmental screening to avoid and mitigate the environmental and social impacts risks of potential subprojects eligible for financing by the participating financial institutions that have access to the partial guarantee. it will be</p>



		considered the lessons learned from the previous project phase. The ESMF will be prepared and disclosed in the country and to infoshop before DM review meeting.
Natural Habitats OP/BP 4.04	No	This policy is not expected to be trigger. All activities/subprojects could affect natural habitat will be ineligible to the financing.
Forests OP/BP 4.36	No	This policy is not expected to be triggered. All activities/subprojects could trigger Forests OP 4.36 will be ineligible to the financing.
Pest Management OP 4.09	No	This policy is not expected to be triggered. All activities/subprojects could trigger OP 4.09 will be ineligible to the financing.
Physical Cultural Resources OP/BP 4.11	No	This policy is not expected to be triggered. All activities/subprojects could trigger OP 4.11 will be ineligible to the financing.
Indigenous Peoples OP/BP 4.10	No	This policy is not expected to be triggered. All activities/subprojects could trigger OP 4.10 will be ineligible to the financing.
Involuntary Resettlement OP/BP 4.12	No	This policy is not expected to be triggered. All activities/subprojects could trigger OP 4.12 will be ineligible to the financing.
Safety of Dams OP/BP 4.37	No	This policy is not expected to be triggered by any of the Project activities.
Projects on International Waterways OP/BP 7.50	No	This policy is not expected to be triggered by any of the Project activities.
Projects in Disputed Areas OP/BP 7.60	No	This policy is not expected to be triggered by any of the Project activities.

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Oct 31, 2017

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

Since the sub-projects/activities to be financed under the credit of local banks for partial guarantee have not yet been identified during the project preparation, the borrower should update the current Environmental and Social Management Framework (ESMF). The revised ESMF will be reviewed and approved by the Bank and disclosed in-country and to the Bank's Infoshop prior to DM review meeting.



CONTACT POINT

World Bank

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Borrower/Client/Recipient

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Implementing Agencies

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APPROVAL

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