This report may be distributed only to staff members whose activities have a bearing on the subject matter thereof. Otherwise, distribution must be authorized by the Vice-President in charge of Operations (OSVP)
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1. INTRODUCTION

1.1 Background Information

1.1.1 The Government of Madagascar and the Bank have identified the agricultural sector as one of their priorities in the Madagascar Action Plan (2007-2012) and CSP (2005-2009) respectively. Extension of the CSP to the end of 2013 with the same initial pillars (consolidation of rural infrastructure and governance) was recently approved by the Board following the mission to assess the country’s situation in October 2011. The Young Rural Entrepreneurs Project (PROJER) was financed by the Bank from 2000 to 2007. Although it experienced some teething problems, the project made significant achievements in intra-regional migration, development of agricultural investment areas, and support for the development of rural businesses. The achievements include land tenure security and development of an agricultural investment zone (AIZ) of 83,500 ha in Bongolava region (ZIA), the establishment of intake facilities through rehabilitation of a campus for trainees, the construction of an Agricultural Training Centre (CFA), accommodation for young rural entrepreneurs (YREs) and the development of an experimental field for agricultural tests, settlement and support for 266 YREs, improvement of the living conditions of beneficiaries through the construction of 3 schools, 3 health centres, 8 storage warehouses, 8 wells, 2 security posts, and 121 km of rural roads; the establishment of a rural credit mutual fund system and a mutual guarantee fund for rural entrepreneurs (CCMER); and a study on the development of a migration master plan.

1.1.2 In November 2007, the PROJER closing mission helped to review the project outputs and prepare guidelines for a new project that will consolidate the achievements. The achievements include the promotion of private investments, the development of support infrastructure for agricultural businesses, intensification of agricultural development, and institution building. Furthermore, it was necessary to extend the project approach to under-populated areas with high agricultural potential located in regions near the Middle-West of Madagascar (Annex 1). At the request of the Government of Madagascar, the Bank sent an identification team of consultants to the country in December 2007. The project was subsequently suspended following the political crisis experienced by Madagascar over the past few years. With the resumption of approval of new Bank operations in Madagascar, an ADB mission to re-update/prepare the PPF visited the country in March 2012. The mission identified the studies needed to finalize the preparation of the new project.

1.1.3 The Nascent Rural Businesses Project for the Middle-West (PROJERMO) is included in the interim CSP (2012-2013) as part of the Bank’s cooperation programme with Madagascar (Pillar 1 of the CSP: development of rural and, in particular, agricultural infrastructure). The studies proposed for PPF financing will therefore yield a project that will be submitted to the Bank in 2014.

1.1.4 The project will support efforts towards agriculture that best meets the needs and demands of the local market, the agri-food industry, and external markets. It will also develop areas with fertile uncultivated or less-cultivated land, and promote rural poverty reduction by increasing the incomes of target communities through development of rural businesses. PROJERMO will facilitate achievement of the objectives of the Joint Initiative (African Union, ADB, UNECA and ILO) to create employment for African youths. It will target aspects relating to the development of production infrastructure and non-financial services. The project will benefit rural entrepreneurs by supporting the emergence and development of rural businesses in the Middle-West region and complement the operations of other donors. To that end, the Government of Madagascar submitted a request to the Bank for PPF financing of UA 450,500 by Letter No. 086-2012-MFB/SG/DGT/DDP/SSEE/RLR of 15 February 2012 (Annex 2).
1.2 **Project Objective and Description**

1.2.1 The objective of the project is to increase the incomes of the target population by supporting rural businesses and helping to boost farm yields in Madagascar. Its specific objective is to promote intensive agriculture by: (i) developing investment areas that can mobilize all development stakeholders through increased private investment in agriculture; and (ii) supporting the modernization of farming practices and the emergence of businesses in the agricultural sector which still employs 80% of Madagascar’s working population.

1.2.2 The future project will include the following activities: (i) development of the project area, which comprises the enhancement of land management and the construction/rehabilitation of rural infrastructure to support the production and marketing of farm produce; (ii) non-financial services to foster the development of rural businesses, namely: management training, business guidance and support, facilitation of entrepreneur access to decentralized financial services, greater access to factors of production (inputs, seeds and mechanization), as well as access to Agricultural Services Centres (ASCs) and Regional Agricultural Development Funds (FRDA); and (iii) project management and monitoring/evaluation.

1.3 **Rationale for Use of the PPF Advance**

PROJERMO seeks to build on the achievements of PROJER and extend its operations to other neighbouring regions. To ensure good project quality at start-up, it is necessary to conduct engineering studies on core developments and investments, as well as the environmental and social impact assessments needed to adequately formulate the project. To that end, the preliminary and final project designs for irrigation schemes and rehabilitation works (roads, buildings, etc.) will be prepared during the PPF. The studies and the corresponding BDs will facilitate commencement of activities on the field as soon as the project team is set up.

2. **DESCRIPTION OF PPF ACTIVITIES**

2.1 **Description of Studies**

The number of project areas will essentially depend on the infrastructure and facility needs and availability of financing, including co-financing. The project areas will cover approximately 2,000 to 3,000 ha each. The size of a project area will also depend on the ease of operationalization and the intra-regional migration possibilities arising from disparities in population density, including distances relatively close to high-density areas (sources) and low density areas (intake). The preparation mission identified four potential project areas based on the following criteria: (i) potential in terms of arable, irrigable and rain-fed land (tanety); (ii) low population density in order to encourage intra-regional migration and the settlement of young agricultural entrepreneurs; (iii) high level of structuring for farmer organizations; (iv) high commercial potential for the development of nascent rural businesses (YRBs); and (v) complementarity with other agricultural development initiatives. The proposed project districts are listed below, for information only, but they will be confirmed by the consultant who will visit them one by one:

- Bongolava Region: Tsiroanomandidy (PROJER) and Fenoarivobe Districts
- Menabe Region: Miandrivazo District
- Vakinakaratra Region: Mandoto District
- Amoron’i Mania Region: Ambatofinadrahana District

The electronic version of the detailed terms of reference of the envisaged studies is available at OSAN and may be consulted on request. A summary of these TORs is appended in Annex 4.
2.1.1 Basic Socio-Economic Studies and Activity Planning Studies by Project Area

The consultant will diagnose and analyze the rural development problems of the regions concerned. To that end, he will use all the available existing documents and conduct additional socio-economic surveys among the communities concerned. Agronomic and pedological studies will help to identify growth-oriented sectors; they will be used in defining development guidelines based on existing documents, especially land tenure maps. Issues on the integration of agriculture and stockbreeding, and the possibility of developing fisheries and fish-farming will also be addressed. The studies will help to develop a global information system on all the rural development aspects of the regions concerned, including the location of agricultural production zones by crop type and rural infrastructure (farm-to-market roads, equipped water points, and lowlands to be developed). A database, complete with maps, will thus be created and placed at the disposal of development partners. An analysis of the existing facilities and infrastructure will supplement the studies. Stakeholders will be consulted during the key stages of the studies (commencement, field studies, presentation of provisional and final reports) to determine the development targets and activities to be proposed for the project areas.

2.1.2 Studies on Core Developments and Investments

The consultant will, first of all, make an inventory-diagnosis of existing infrastructure and an analysis of the farming and management methods. For the farm-to-market roads, the segments to be rehabilitated will be identified, and each choice will be justified in terms of their connection to farming areas that are still inaccessible. The works will be quantified, with an indication of the options proposed (type of road surface, small structures to facilitate access to farming areas, network of farm-to-market roads to improve produce marketing, and maintenance method) and preference given to the labour-intensive approach. Since most of the land will be cultivated for rainfed farming, they will not need major works, except for a few structures to facilitate mechanized farming. For small lowlands, development proposals will be made for water management with the possibility of constructing a water dam downstream. The possibility of developing water points (repair or construction of wells, boreholes, and water supply) will also be explored. With regard to existing project area facilities and infrastructure, existing services (health centres, schools, security, etc.) will be described and additional needs stated for the development of rural enterprises. The studies on core developments and investments will include preliminary and final designs, as well as BDs for the infrastructure to be constructed. All rural infrastructure design studies will include climate change adaptation measures, given Madagascar’s vulnerability to this phenomenon.

2.1.3 Studies on Institutional Anchoring

An inventory of existing institutions will be made to determine their respective roles, functioning and development prospects. The possibility of securing financing from funds like the Regional Agricultural Development Fund (FRDA) will be explored. In regions where such funds are already financed by other donors, the project will supplement existing mechanisms. For Bongolava region which currently has no FRDA, it will be proper to study the conditions for establishing this fund based on common national provisions that are adapted to Bank procedures. Furthermore, after consultations with previously settled young entrepreneurs, other farmers and private companies investing in the region, a vocational training programme will be introduced. The business plan of the Agricultural Training Centre will also be prepared and operating manuals drafted. Practical ways of encouraging private agricultural investment will be set out in detail. As concerns the settlement of young agricultural entrepreneurs in the area, the Consultant will pay special attention to the selection criteria and settlement facilitation measures for youths in the project area. In his institutional design of the project, the consultant should consider the need to open a project station in Antsirabe or Miandrivazo to cover new extensions of the initial PROJER project area.
2.1.4 Studies on Non-Financial Support Services for Agricultural Entrepreneurs

This study will assess the supply of non-financial support services provided to agricultural businesses in the Middle-West Region of Madagascar. It will also assess the availability of technical agricultural and management training, and analyze the assistance/monitoring mechanisms available to entrepreneurs. The diagnosis will also focus on service delivery, as well as dissemination of technologies to agricultural entrepreneurs and professional agricultural organizations. The study will make recommendations on: (i) capacity building mechanism and actions for entrepreneurs and other economic stakeholders in a business relationship; and (ii) measures needed to facilitate the financing of agricultural businesses. Women will constitute a priority target group for these capacity building activities.

2.1.5 Studies on the Value Chains of Three Key Agricultural Products

The consultant will identify three key products with very high commercial potential. He will prepare an analysis of the value chain of each of these products, and identify commercial opportunities for agricultural entrepreneurs through an in-depth study on the supply chains of inputs, the development of agricultural products, and markets. For each value chain, he will prepare an action plan to boost its competitiveness. The action plans will mainly focus on gender and the elimination of bottlenecks to private investment in the identified value chains.

2.1.6 Environmental and Social Impact Assessment

The consultant will conduct an environmental and social impact assessment (ESIA) of the proposed activities and infrastructure. This assessment should meet the environmental assessment requirements of the Government of Madagascar and the Bank.

2.2 Description of Expected Outcomes

The PPF advance requested by the Government of Madagascar will be used for: (i) preparing a baseline situation for the Nascent Rural Businesses Project for the Middle-West; (ii) preparing proposals for the development of the new project areas and the design of non-financial support services for agricultural businesses; (iii) defining a private investment development strategy in agriculture and a development plan for three growth-oriented agricultural value chains; (iv) conducting an assessment of the economic returns on planned investments; (v) conducting feasibility studies and preparing the final designs and BDs of selected irrigation schemes, rural roads and other infrastructure; and (v) conducting an environmental and social impact assessment of the proposed activities and infrastructure.
3. **COST ESTIMATE OF PREPARATION ACTIVITIES**

3.1 **Detailed Cost Estimate of Studies**

The detailed cost estimate, net of taxes and customs duties, broken down into foreign exchange costs and local currency costs, is presented in the table below (with amounts expressed in UA):

<table>
<thead>
<tr>
<th>ITEMS</th>
<th>Units</th>
<th>Unit Price</th>
<th>Qty</th>
<th>L.C.</th>
<th>F.E.</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. REMUNERATION OF THE CONSULTANCY FIRM</strong></td>
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<tr>
<td><strong>1.1 CONSULTANCY FEES</strong></td>
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</tr>
<tr>
<td>1.1.1. Mission Head Agro-economist</td>
<td>SM</td>
<td>15 000</td>
<td>7</td>
<td>105 000</td>
<td>105000</td>
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</tr>
<tr>
<td>1.1.2. Capacity-building and Agricultural Training Expert</td>
<td>SM</td>
<td>3 000</td>
<td>9 000</td>
<td>9000</td>
<td></td>
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<tr>
<td>1.1.3. Agri-business Expert</td>
<td>SM</td>
<td>12 000</td>
<td>6000</td>
<td>6000</td>
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<tr>
<td>1.1.4. Rural Engineering Expert</td>
<td>SM</td>
<td>12 000</td>
<td>48000</td>
<td>48000</td>
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<tr>
<td>1.1.5. Hydrologist</td>
<td>SM</td>
<td>3 000</td>
<td>6000</td>
<td>6000</td>
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<tr>
<td>1.1.6. Geographical Information Systems Expert</td>
<td>SM</td>
<td>3 000</td>
<td>6000</td>
<td>6000</td>
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<tr>
<td>1.1.7. Agronomist</td>
<td>SM</td>
<td>3 000</td>
<td>6000</td>
<td>6000</td>
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<tr>
<td>1.1.8. Environment and Climate Change Expert</td>
<td>SM</td>
<td>12 000</td>
<td>36 000</td>
<td>36000</td>
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<tr>
<td>1.1.9. Livestock Expert</td>
<td>SM</td>
<td>3 000</td>
<td>6000</td>
<td>6000</td>
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<td>1.1.10. Rural Socio-Economist</td>
<td>SM</td>
<td>3 000</td>
<td>6000</td>
<td>6000</td>
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<tr>
<td>1.1.11. Financial and Economic Analysis Expert</td>
<td>SM</td>
<td>12 000</td>
<td>24000</td>
<td>24000</td>
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<tr>
<td>1.1.12. Others (local survey staff, topographers)</td>
<td>Lumpsum</td>
<td>38 000</td>
<td>38 000</td>
<td>38 000</td>
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<tr>
<td><strong>1.2. OTHER FEES</strong></td>
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<tr>
<td>1.2.1 Communication and publication of reports</td>
<td>Lump sum</td>
<td>20 500</td>
<td>6000</td>
<td>14 500</td>
<td>20 500</td>
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<tr>
<td>1.2.2 Vehicle rental</td>
<td>Lump sum</td>
<td>24 000</td>
<td>24 000</td>
<td>24 000</td>
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<td>1.2.3 Subsistence allowance</td>
<td>Lump sum</td>
<td>30 000</td>
<td>30 000</td>
<td>30 000</td>
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<td>1.2.4 Public meetings and feedback workshops</td>
<td>Lump sum</td>
<td>15 000</td>
<td>15 000</td>
<td>15 000</td>
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<td><strong>1.3 REFUNDABLE EXPENSES</strong></td>
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<tr>
<td>1.3.1. International travel</td>
<td>Unit</td>
<td>3 000</td>
<td>18 000</td>
<td>18 000</td>
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<tr>
<td>1.3.2. Satellite images</td>
<td>Lump sum</td>
<td>10 000</td>
<td>9 000</td>
<td>10 000</td>
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<tr>
<td><strong>SUB-TOTAL OF STUDY COSTS</strong></td>
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<td><strong>115 000</strong></td>
<td><strong>290 500</strong></td>
<td><strong>443 500</strong></td>
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<td><strong>II. AUDIT</strong></td>
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<td><strong>SUB-TOTAL CONSULTANCY SERVICES</strong></td>
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<tr>
<td><strong>153 000</strong></td>
<td><strong>297 500</strong></td>
<td><strong>450 500</strong></td>
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<tr>
<td><strong>III. PROJECT OPERATING EXPENSES</strong></td>
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<td><strong>SUB-TOTAL: OPERATING COSTS</strong></td>
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<td><strong>20 100</strong></td>
<td><strong>0</strong></td>
<td><strong>20 100</strong></td>
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<td><strong>GRAND TOTAL</strong></td>
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<tr>
<td><strong>173 100</strong></td>
<td><strong>297 500</strong></td>
<td><strong>470 600</strong></td>
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</tbody>
</table>

The PPF amount (UA 450,500) will be used in financing all service expenditures: engineering studies (UA 443,500) and auditing (UA 7,000).
3.2 Financing Plan

The financing plan is presented in the table below (with amounts expressed in UA). The Government’s contribution, representing 11% of local currency costs, will cover the salaries of staff involved in the studies and operating costs.

<table>
<thead>
<tr>
<th>Source of Financing</th>
<th>Local Currency</th>
<th>Foreign Exchange</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>PPF</td>
<td>153,000</td>
<td>297,500</td>
<td>450,500</td>
</tr>
<tr>
<td>Government</td>
<td>20,100</td>
<td>0</td>
<td>20,100</td>
</tr>
<tr>
<td>TOTAL</td>
<td>173,100</td>
<td>297,500</td>
<td>470,600</td>
</tr>
</tbody>
</table>

4. PROCUREMENT OF SERVICES

Consultancy services for conduct of the various studies (UA 443,500) and auditing (UA 7,000) will be procured through consultation of a shortlist of consultancy firms. The consultancy firm responsible for the studies will be recruited through selection based on quality and cost (SBQC). The audit firm will be recruited based on lowest-cost selection (LCS).

5. EXECUTING AGENCY AND SCHEDULE

5.1 The PPF Coordination Unit, under the supervision of the Technical General Directorate of Agriculture in the Ministry of Agriculture (MINAGRI), will be responsible for technical supervision and financial management of the PPF. To that end, it will be responsible for keeping accounts and preparing financial statements.

5.2 By virtue of its duties, which include several areas covered by this PPF (agricultural production, rural engineering, crop sector support, etc.), the Directorate is best placed to conduct this study. Moreover, its staff members are fully conversant with the problems of the Middle-West since some of them monitored the implementation of PROJER and PPR preparation. The other Ministries involved in rural development (fisheries, livestock, land-use management, etc.) will be associated with the study consultations. Given the diversity of domains covered, NGFO will closely monitor the conduct of this study and intermediate results in order to make timely adjustments, if necessary. The study activities will cover a period of 18 months as from effectiveness of the agreement (date on which the letter of agreement is countersigned by the Government). Activities will be implemented according to the following schedule:

<table>
<thead>
<tr>
<th>Activities/Actions</th>
<th>Responsible</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Approval</td>
<td>ADF</td>
<td>M0</td>
</tr>
<tr>
<td>Signing of the letter of agreement</td>
<td>ADF</td>
<td>M0+1</td>
</tr>
<tr>
<td>Publication of call for expressions of interest</td>
<td>Government</td>
<td>M0+1</td>
</tr>
<tr>
<td>Preparation of requests for proposals and shortlist of consultancy firms</td>
<td>Government/ADF</td>
<td>M0+3</td>
</tr>
<tr>
<td>Launching of requests for proposals</td>
<td>Government</td>
<td>M0+3</td>
</tr>
<tr>
<td>Assessment and selection of consultancy firms</td>
<td>Government</td>
<td>M0+6</td>
</tr>
<tr>
<td>ADB approval and signing of contracts</td>
<td>Government/ADF</td>
<td>M0+7</td>
</tr>
<tr>
<td>Workshop for launching of studies</td>
<td>Government/ADF/Beneficiaries/Consultant</td>
<td>M0+8</td>
</tr>
<tr>
<td>Workshop for presentation of provisional reports</td>
<td>Government/Beneficiaries/Consultant</td>
<td>M0+16</td>
</tr>
<tr>
<td>Conduct of studies, bidding documents</td>
<td>Consultants</td>
<td>M0+16</td>
</tr>
<tr>
<td>Conduct of an audit at the end of PPF activities</td>
<td>Government</td>
<td>M0+18</td>
</tr>
</tbody>
</table>
6. FINANCING ARRANGEMENTS

6.1 Refinancing and Reimbursement of Advances

PROJERMO is scheduled to be financed with a PPF advance. Refinancing and reimbursement of the advance will be done in accordance with the financial provisions applicable to PPF advances.

6.2 Suspension of PPF Advance Disbursements

Where it is necessary to suspend PPF advance disbursements, such suspension will comply with the guidelines governing the use of PPF resources.

6.3 Special Account

There is no provision for a PPF special account. The advance resources will be used solely to finance consultancy services for the studies and auditing. The direct payment method will be used to defray the costs of these services.

6.4 Audit Arrangements

Only one external audit will be conducted at the close of the PPF. This external audit will be conducted in compliance with international standards by a qualified audit firm. The Bank’s terms of reference will be adjusted to take account of PPF specificities (duration of the PPF, absence of a special account, limited number of direct payments). The Technical General Directorate of Agriculture is responsible for the PPF financial management and, in that capacity, will be responsible for keeping accounts and preparing financial statements.

6.5 Letter of Agreement and Annexes

The draft letter of agreement and its annexes (purpose, terms and conditions of the advance, and financial provisions applicable to PPF advances) are presented in Annex 3.

7. CONCLUSIONS AND RECOMMENDATIONS

7.1 Conclusions

The PPF advance requested by the Government of Madagascar will be used in preparing the project and bidding documents to be launched. The project, for which the studies are intended, is included in CSP (2012-2013) as part of the cooperation programme between the Bank and Madagascar under ADF XIII.

7.2 Recommendation

In light of the foregoing, it is recommended that a PPF advance, not exceeding UA 450,500, be awarded to the Government of Madagascar to finance the preparatory studies of the Nascent Rural Businesses Project for the Middle-West of Madagascar.
LOCATION OF THE PROJECT AREA
PROJECT PREPARATION FINANCING REQUEST

GOVERNMENT
MINISTRY OF FINANCE AND THE BUDGET
GENERAL SECRETARIAT
GENERAL DIRECTORATE OF THE TREASURY
Department of Public Debt

N°________-2012-MFB/SG/DGT/DDP/SSEE/RLR

Subject: Financing Request for Preparation of the Nascent Rural Businesses Project for the Middle West (PROJERMO)

Dear Sir,

I have the honour to request financing for preparation of the Nascent Rural Businesses Project for the Middle West (PROJERMO) in the amount of UA 450,505.

The amount will be used in conducting studies that would evaluate and plan developments and investments required for the implementation of the project as well as improve the institutional and organizational design of the Project.

Please find attached hereto, the said project.

Please accept, Sir, the assurances of our highest consideration.

Cc.: ADB :
- Resident Representative in Madagascar
  Immeuble FITARATRA, 9e etage, Ankorondrano
- The Coordinator of PROJERMO Project
  BP 5023 Nanisana-Antananarivo
### APPLICATION FORM FOR PROJECT PREPARATION FINANCING MECHANISM

1. **Project/Study or Programme Name**: Nascent Rural Businesses Project for the Middle West (PROJERMO)

2. **Country**: Madagascar

3. **Borrower**: Government of Madagascar

4. **Executing Agency**
   (a) **Name**: Project Implementation Unit (PIU)
   (b) **Address**: BP 5023 Nanisana – Antananarivo 101
      Tel: +261 34 15 189 48/ +261 34 05 653 78
      +261 33 06 008 66
      E-mail: iafetra.ntsoa@yahoo.fr

5. **Description of Preparation Activities**: (i) study on core developments and investments
   (ii) study on project institutional anchorage
   (iii) study on promotion of private initiatives and partnership (PPP).

6. **Rationale for Preparation Activities**: The preparation activities will consist mainly in conducting studies that would evaluate and plan developments and investments required for implementing the project, as well as improve the project institutional and organizational design.
7. Project Cost Estimate

(a) Foreign Exchange : UA 305 710.00

(b) Local Currency : UA 144 795.00

(c) Total Amount : UA 450 505.00

8. Financing Plan

(a) ADF : UA 450 505.00

(b) Government : -

(c) Total : UA 450 505.00

9. Proposed Procurement Method

(a) Services : Competitive bidding based on short list

(b) Goods (if need be) : -

(c) Miscellaneous (including training of local staff): -

10. Implementation Plan : April 2012 – March 2013

Attach implementation schedule

11. Evidence of Government commitment to implement the proposed project, study or programme

(a) Explain and assess the Government’s determination chances of implementing the request proposed project, study or programme to implement this project through its dated … for preparation deviance

(b) Indicate the name and position of the official who will sign the Letter of Agreement Hery RAJAONARIMAMPIANINA Minister of Finance and the Budget

(c) Indicate the name of the Project Coordinator responsible for controlling the activities and use of the advance. RANDRIAMANANTSOA Jafetra Project Coordinator
12. Name of the Secretary-General of the Ministry of Finance
   ANDRIAMBOLOLONA Vonintsalama

13. Signature/Stamp of the Ministry of Finance of the Regional Member Country

   The Minister of Finance and the Budget

   Date:
LETTER OF AGREEMENT FOR A PROJECT PREPARATION FUND ADVANCE

H.E. Hery RAJAONARIMAMPIANINAMinister of Finance and the BudgetANTANANARIVO - Madagascar

Subject: Madagascar: Nascent Rural Businesses Project for the Middle-West: Letter of Agreement for a Project Preparation Fund Advance

Your Excellency,

With reference to your letter No. 086-2012-MFB/SG/DGT/DDP/SSEE/RLR of 15 February 2012 on the financing of studies for preparation of the abovementioned project, we have the pleasure to inform you that the African Development Fund has favourably considered your request and accepted to grant the sum of UA 450,500 (four hundred and fifty thousand five hundred Units of Account) (hereinafter referred to as the "advance") to the Republic of Madagascar (hereinafter referred to as the "beneficiary") to finance certain expenses required for preparatory studies of the Nascent Rural Businesses Project for the Middle-West.

The advance is granted for the purposes and under the terms and conditions set out in Annexes I and II attached hereto.

By confirming its agreement hereunder, the beneficiary declares that it is authorized to contract, withdraw and reimburse the advance for the purposes and under the terms and conditions set out in the annexes to this letter of agreement.

The amounts withdrawn from the advance will bear a service charge of 0.75% per year, in accordance with Paragraph 5 of the financial provisions applicable to project preparation advances, outlined in Appendix II of this Letter of Agreement.

The financing of preparatory activities does not constitute or imply any undertaking by the Fund to contribute to the financing of the project targeted by the envisaged study.

Kindly confirm, on behalf of the beneficiary, your agreement to the abovementioned provisions by signing, dating and returning to us the attached copy of this document. The agreement will take effect from the date the Fund countersigns the document.

Please accept, Your Excellency, the assurances of our highest consideration.

AFRICAN DEVELOPMENT FUND

By

______________________________

Kamal ELKHESHEN

Vice-President of Operations

Date: .............................................

Republic of Madagascar

By

______________________________

Hery RAJAONARIMAMPIANININA

Ministry of Finance and the Budget

Date: ...................................................
Appendix I

Purpose, Terms and Conditions of the Advance

1. The advance is granted for the following activities needed to complete project preparation:
   i) Basic socio-economic studies and activity planning studies per project area;
   ii) Studies on core developments and investments;
   iii) Studies on institutional anchoring;
   iv) Studies on non-financial support services for agricultural entrepreneurs;
   v) Studies on the value chains of three key agricultural products; and
   vi) Environmental and social impact assessment (ESIA).

2. The expenses to be financed are summed up in Table 3.1 of the main report.

3. The beneficiary shall:
   i) diligently and efficiently carry out the abovementioned preparatory activities;
   ii) promptly provide the funds, means, services and any other resources needed for preparatory activities;
   iii) provide the Fund with all information, which the Bank could reasonably request, on these activities and the use of the advance resources; and
   iv) periodically share views with Fund representatives on the progress and outcome of these activities.

4. There is no provision for the opening of a special account for this advance. Consultancy costs will be defrayed through direct payment.

5. The beneficiary shall recruit consultants deemed acceptable by the Fund, in accordance with the terms and conditions satisfactory to the latter. Consultants shall be selected according to principles and procedures deemed acceptable by the Fund and in accordance with the Fund’s Rules of Procedure for the Use of Consultants (May 2008 edition). These consultants may not be replaced and their employment terms and conditions may not be amended without the prior consent of the Fund.

6. The withdrawal, use and reimbursement of the advance shall be subject to the financial provisions applicable to project preparation advances ("financial provisions") set out in Appendix III.

7. In accordance with paragraph 6 of the financial provisions, the advance shall include a service charge.

8. The date of___________ is specified for the purposes of paragraph 6 of the financial provisions. After this date, no withdrawals can be made from the advance and any residual sums shall be cancelled, unless the Bank sets another date for the purposes of paragraph 6.

9. Requests for withdrawal from the advance shall be signed by the Minister of Finance and the Budget or any other official designated in writing by this authorized representative of the Government. Authenticated signature specimens of such appointees shall accompany the first withdrawal request.
Appendix II

Financial Provisions Applicable to Project Preparation Advances

1. In these provisions, the term "Fund" refers to the African Development Fund (the "Fund").

2. The Fund shall disburse to the beneficiary (Republic of Madagascar) the resources of a project preparation advance to cover expenditure items specified in the letter of agreement on the advance. The beneficiary shall submit a written withdrawal request in the format stipulated by the Fund. The request shall be signed by an authorized representative of the beneficiary and accompanied by supporting documents for the expenditure made or, with the consent of the Fund, to be made.

3. The advance shall be disbursed in the currency agreed upon by the Fund and the Borrower, in accordance with the Fund’s disbursement rules.

4. Withdrawals shall be made only for settlement of expenditures on services or goods from eligible countries in accordance with the Bank’s Rules of Procedure for Procurement of Goods, Works and Services.

5. As specified by the Fund in the Letter of Agreement on the advance, the withdrawn and non-reimbursed amounts of the advance shall bear a service charge of 0.75% per year.

6. Withdrawals from the advance and the applicable service charges shall be repaid by the beneficiary as follows:

   a) If, before or on the date agreed upon by the beneficiary and the Fund in the letter of agreement on the advance, the Fund awards a loan as contribution to the financing of the project whose preparation was financed by the advance, the full amount of the withdrawn and unreimbursed advance shall be reimbursed to the Fund. This amount shall include the service charge applicable as at the date of reimbursement. Reimbursement shall be made through deductions from the loan resources in accordance with the provisions of the loan agreement, as soon as it becomes effective.

   b) If, as at the date indicated in Paragraph (a) above, no loan or grant has been obtained or, if as at that date or subsequently, the agreement for this loan or this ADF grant expires without coming into effect:

   i) where the amount withdrawn from the advance does not exceed UA 20,000, the beneficiary shall reimburse the amount to the Fund and pay the service charge applicable at the time of reimbursement, on the date specified by the Fund in the notification sent to the beneficiary; in any event, this date may not occur less than 60 days after the date of notification; and
ii) where the amount withdrawn from the advance exceeds UA 20,000, the beneficiary shall reimburse the amount in three annual tranches equivalent to the principal, together with the service charges that apply to this amount, in accordance with the amounts and dates specified by the Fund in the notification sent to the beneficiary; in any event, the first tranche may not be due less than 60 days after the date of communication of the notification.

7. All payments to the Fund shall be in the currency in which the advance was disbursed or in another currency agreed upon by the Fund and the borrower for the equivalent sum, in accordance with the Fund’s disbursement rules.

8. The Fund may at any time send a notification to the beneficiary suspending all withdrawals from the advance for any of the following reasons: (a) the amounts withdrawn were not used for the purposes agreed upon by the beneficiary and the Fund; (b) preparatory activities were not carried out in compliance with the standards or methods agreed upon by the beneficiary and the Fund; or (c) the right of the beneficiary, or of any other entity to which the Fund awarded a loan guaranteed by the beneficiary, to make withdrawals under the loan or ADF grant agreement signed with the Fund has been suspended.

9. At any time after the suspension of withdrawals from the advance in accordance with current provisions, the Fund may, by notification to the beneficiary, cancel any amount of the advance that has not been withdrawn.
SUMMARY TERMS OF REFERENCE FOR PROJERMO STUDIES

I. OBJECTIVE OF THE STUDIES

The envisaged studies will serve as basis for preparation of the Nascent Rural Businesses Project for the Middle-West. They will focus on the following four components: (i) basic socio-economic studies and activity planning studies by project area; (ii) studies on core developments and investments; (iii) studies on institutional anchoring; (iv) studies on the establishment of a micro-credit and private initiatives promotion system; and (v) environmental and social impact assessment (ESIA).

II. LESSONS LEARNT FROM PROJER

From 2000 to 2007, the Bank provided UA 7.3 million to finance the Young Rural Entrepreneurs Project (PROJER), located in Bongolave region. The sector goal of the project was to: (i) improve food security conditions; and (ii) increase rural income. The specific objective was to promote agricultural production by creating 325 agricultural businesses through training, equipment and technical advice to young rural entrepreneurs (YREs) capable of playing a catalytic role in regional development. Despite delays in start-up, the project implemented most of the planned actions, from the quantitative standpoint. Indeed, land tenure security and development covering 4 ranches were conducted over a total of 83,500 hectares compared to 60,000 scheduled at appraisal. Intake facilities were set up following the rehabilitation of a campus for trainees, the construction of an Agricultural Training Centre (CFA), houses for YREs and project staff, and development of an experimental field for agricultural tests. Four batches of YREs were settled and supported, making a total of 266 YREs out of the 325 scheduled at appraisal. Support measures were implemented with the construction of 3 schools, 3 health centres, 8 storage warehouses, 8 wells, 2 security posts, supply of construction materials for YRE houses and the building of 121 km of rural roads. A mutual rural credit system was established, as well as a Rural Entrepreneurs Mutual Guarantee Fund (CCMER). Lastly, institutional support was provided through technical assistance services spread over 3 years and the conduct of a study for the development of a migration master plan.

Despite the shortcomings noted, the project achieved encouraging results. Indeed, it opened up a new perspective on public-private partnership in the Middle-West region through operation of constructed infrastructure, offered local employment opportunities that facilitated the integration of young entrepreneurs into the regional economy, encouraged better population distribution to decongest the overpopulated areas in the plateaux by encouraging settlement in low-density areas (less than 10 inhabitants per km²), and initiated the development of the enormous potential of undeveloped land in the region estimated at 300,000 ha.
The Bank’s completion report, prepared in 2008, recommended that a consolidation phase be envisaged to generate returns on the investment made and promote the emergence of a strong regional growth pole. Furthermore, certain activities were supposed to be continued, especially in land tenure security, operationalization and maintenance of basic infrastructure, institutionalization of the CFAF in the new context of recent initiatives such as the Agricultural Services Centres (CSAs), the Agri-Business Centre (ABC) and Development Support Military Service (SMAD). The growing involvement of private economic operators was supposed to help address some of these difficulties. These activities were to be implemented by the skeleton staff of the Project Execution Unit, which remained in operation after the Bank’s financing came to an end. Following the political crisis of 2009 and given the large number of people who lost their jobs in the cities because of the closure of businesses that no longer benefitted from the facilities of the AGOA agreements, the transition Government used its own resources to finance activities similar to PROJER within the region and in other regions to settle farmers.

III. DESCRIPTION OF REQUESTED SERVICES

The studies will be conducted using a participatory approach to ensure that the designed project reflects stakeholder expectations and allows for achievement of the sustainable development objective, taking into account natural resource management, the sustainability of Farmer Organizations (FOs), the improvement of rural living standards, the integration of women into the development process, and poverty reduction. To that end, the participation of the communities, and especially of women, will be crucial. From the very beginning, the studies should closely involve local authorities, farmers, FOs, private operators, service providers and other donors operating in the regions concerned. Hence, the consultancy firm will organize grassroots consultations as it conducts the study, as well as several workshops to be attended by all development stakeholders.

The proposed study will be conducted in two successive phases over a total period of 8 months. The first phase, lasting for approximately 3 months, will be devoted to diagnosis and analysis of the rural development problems of the regions concerned. To that end, the consultant will collect and use all the existing basic documentation that is available and relevant to the objective of the study, and also collect additional data through socio-economic surveys among the communities concerned, by relying on interviews with the authorities and techno-executive senior staff and through prospecting in the project areas. This will be done concurrently with the regional diagnoses carried out by IFAD. The conclusions of the first stage will be validated during a workshop. Phase two, lasting for 5 months, will be devoted to feasibility studies and detailed preparation of the project, focusing on technical design; cost estimation and the expected effects on the incomes of various categories of stakeholders and on women's activities; project organization; definition of the contractual framework and management modalities; financial and economic analysis; and the environmental impact of the project. At the end of the study, all the documents and conclusions will be presented for validation to the country’s authorities during a second workshop.
A. Diagnostic Analysis

A diagnostic analysis will highlight the constraints and development potential of the areas under consideration. It will help to specify their physical and socio-economic context. This diagnostic analysis will cover the following activities:

- Collection of basic data;
- Description and analysis of the current situation:
  - Administrative and institutional framework,
  - Physical environment: data on climate, vegetation, hydrography/hydrology, geology and pedology.
  - Human environment and population
  - Economic context

B. Detailed Studies

After the diagnostic analysis, the consultant will strive to present the project in detail so that a maximum amount of information will be available during implementation of the future project. The project should be in conformity with regional specificities and consistent with the priorities set by the Malagasy authorities. The consultant will conduct detailed studies that are indispensable for clearer identification of selected activities and the preparation of a feasibility report. These studies will: (i) define the approach and identify the components of the project by analyzing the problems, potential and constraints of the region; and (ii) more precisely locate the actions of the project. In general, the following studies will be carried out in all areas covered by the project:

- Planning of activities by region
  - Agriculture
  - Farm mechanization
  - Land tenure
  - Stockbreeding
  - Fish farming
  - Water management
  - Institutional support
  - Support actions
    - Research-development
    - Regional fund for agricultural development
    - Women's organizations
    - Conditions for private sector intervention
    - Level of facilities and infrastructure
    - Farm-to-market roads
    - Rural training/guidance systems
  - Project management
- Studies on non-financial support services for agricultural businesses;
- Study on three agricultural value chains and promotion of private initiatives;
- Environmental and Social Impact Assessment; and
- Detailed economic and financial analysis.