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Enabling poor rural people  
to overcome poverty

## **President's memorandum**

### **Proposed supplementary loan to the Republic of Madagascar for the**

### **Project to Support Development in the Menabe and Melaky Regions**

#### **Note to Executive Board representatives**

##### Focal points:

##### Technical questions:

**Norman Messer**  
Country Programme Manager  
Tel.: +39 06 5459 2738  
e-mail: n.messer@ifad.org

##### Dispatch of documentation:

**Kelly Feenan**  
Head, Governing Bodies Office  
Tel.: +39 06 5459 2058  
e-mail: gb\_office@ifad.org

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**For: Approval**

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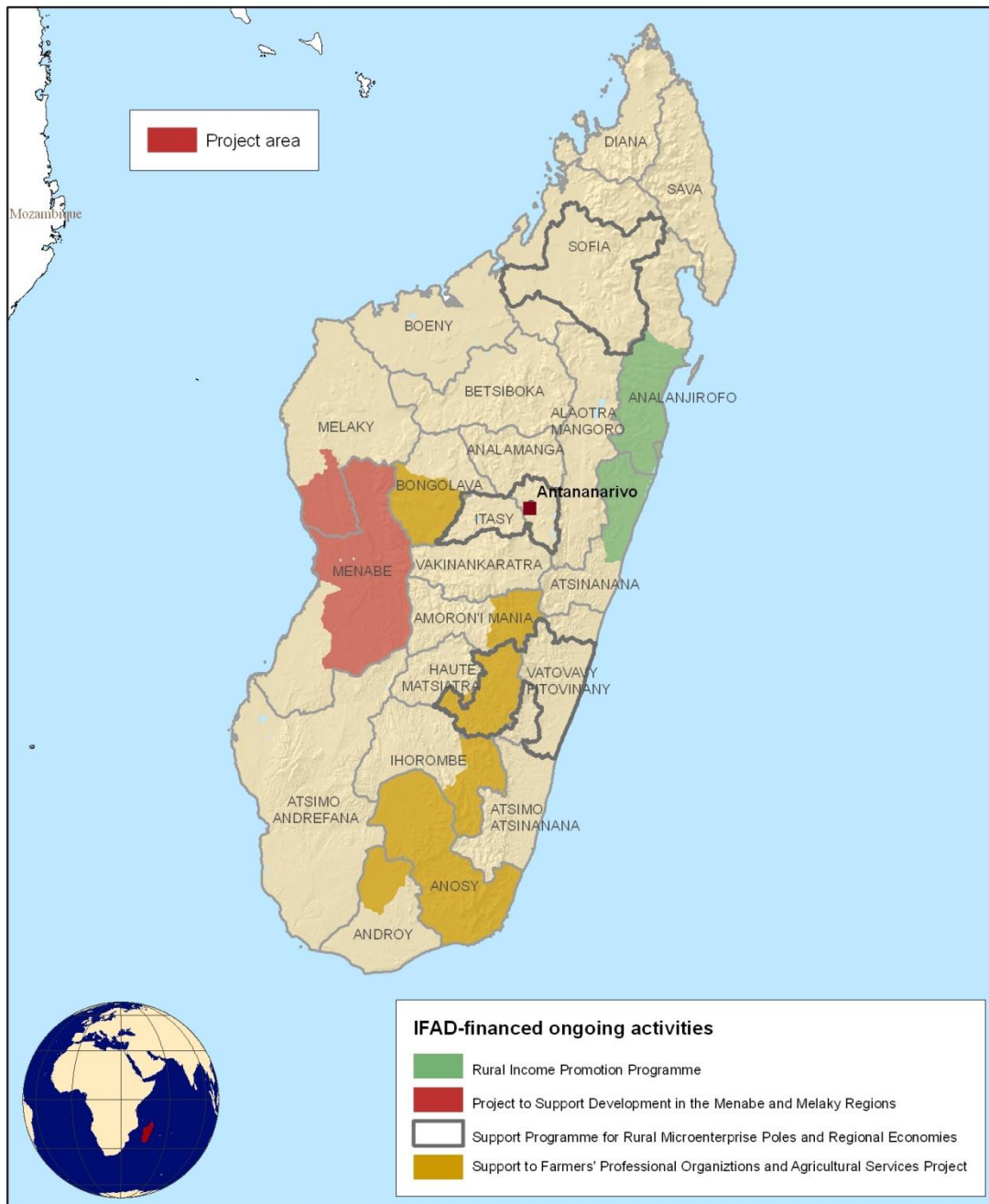
## Abbreviations and acronyms

AD2M	Project to Support Development in the Menabe and Melaky Regions
CAPFIDA	Madagascar country programme unit
MAP	Madagascar Action Plan
PNDR	Programme National de Développement Rural (National Rural Development Programme)
PNF	Programme National Foncier
PSA	Agricultural Sector Programme

# Map of the project area

## Madagascar

Project to Support Development in the Menabe and Melaky Regions,  
Supplementary Funding



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD

## Republic of Madagascar

### Supplementary loan for the Project to Support Development in the Menabe and Melaky Regions

#### Financing summary

<b>Initiating institution:</b>	IFAD
<b>Borrower:</b>	Republic of Madagascar
<b>Executing agency:</b>	Ministry of Agriculture
<b>Total project cost:</b>	US\$26.27 million
<b>Amount of IFAD loan:</b>	SDR 3.35 million (equivalent to approximately US\$5.17 million)
<b>Terms of IFAD loan:</b>	Highly concessional
<b>Original IFAD loan:</b>	US\$13.12 million
<b>Original IFAD grant:</b>	US\$365,000
<b>Cofinancier(s):</b>	European Union NGOs (including Intercooperation, the Swiss foundation for development and international cooperation)
<b>Amount of cofinancing:</b>	European Union: US\$3.96 million NGOs: US\$442,000
<b>Terms of cofinancing:</b>	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
<b>Contribution of borrower:</b>	US\$2.68 million
<b>Contribution of beneficiaries:</b>	US\$0.527 million
<b>Appraising institution:</b>	IFAD
<b>Cooperating institution:</b>	Directly supervised by IFAD

## **Recommendation for approval**

The Executive Board is invited to approve the recommendation for the proposed supplementary financing to the Republic of Madagascar for the Project to Support Development in the Menabe and Melaky Regions, as contained in paragraph 33.

## **Proposed supplementary loan to the Republic of Madagascar for the Project to Support Development in the Menabe and Melaky Regions**

### **I. Strategic context and rationale**

#### **A. Country and rural development and poverty context**

1. The poverty reduction strategy paper adopted in 2003 and the Madagascar Action Plan (MAP) prepared in 2006 set forth the Government's policy guidelines for economic growth and poverty reduction. Madagascar's progress in poverty reduction is reflected in an improvement in its human development index, with the country now ranked 135 among 169 countries (United Nations Development Programme, 2010). Nevertheless, the rate of decline in poverty is slow, averaging 1.2 per cent per year. Poverty continued to affect 66.3 per cent of the population in 2007. Major disparities exist between towns and rural areas, where 75 per cent of the population is poor. If poverty is to be reduced to 50 per cent by 2012 (an objective of the MAP) and 35 per cent by 2015 (a Millennium Development Goal), the rate of poverty reduction will need to increase threefold.
2. Agriculture is the mainstay of the country's economy, employing 80 per cent of Malagasy families on 2.5 million farms and accounting for 27 per cent of GDP and 47 per cent of primary GDP (1984-2005). The production of rice, the main staple food, which accounts for 70 per cent of total agricultural production, fell from 284 kg/inhabitant/year to 161 kg/inhabitant/year between 1970 and 2003. Yields have remained stagnant at about 2.1 tons per hectare over the past 30 years, and today the country imports between 5 and 10 per cent of the rice it consumes. Despite its unquestionable agroecological potential, the sector's poor performance is a major cause of rural poverty. Improving land tenure security and cropping practices, agricultural intensification, access to financial services and appropriate inputs and equipment, together with access to production areas and to remunerative markets, are key elements in ensuring agricultural development.

#### **B. Rationale and alignment with government priorities and RB-COSOP**

3. In April 2006, the IFAD Executive Board approved a loan and a grant to the Republic of Madagascar to finance the Project to Support Development in the Menabe and Melaky Regions (AD2M).<sup>1</sup> The IFAD loan of SDR 9.1 million (approximately US\$13.12 million) was extended on highly concessional terms and was complemented by a grant of SDR 255,000 (approximately US\$365,000). The total estimated project cost was US\$23.43 million, including expected parallel funding from the Millennium Challenge Account.
4. The National Rural Development Programme (PNDR), the MAP and the Agricultural Sector Programme (PSA) provide a policy framework for agricultural and rural development. The PNDR (2005) focused on mainstreaming rural production into the market economy, developing poles of economic growth based on regional

<sup>1</sup>See document EB 2006/87/R.14/Rev.1.

comparative advantages and promoting value chains with promising export prospects. The MAP (2006) sets six challenges for the agriculture sector: improving land tenure security; providing access to adapted rural financial services; launching a sustainable green revolution; promoting market-driven activities; diversifying agricultural activity; increasing agricultural value-added and promoting agribusiness. The PSA (2008) sets out the operational and budgetary framework for the period 2008-2012 to achieve the MAP objectives for the sector. The PSA includes an action plan to meet the MAP agricultural challenges, including 12 subprogrammes. The PSA had been on hold since 2009, but the formulation process resumed in October 2011, in line with the Comprehensive Africa Agriculture Development Programme.

5. The activities to be financed under the proposed supplementary financing are fully aligned with Madagascar's national strategies. A budget increase for AD2M is justified by the need to strengthen the capacity and production base of the poor population in the project areas (irrigation schemes and feeder roads) and improve their marketing capacity, thereby significantly increasing the outcomes and impacts of investments made so far. In addition, it will further develop investments to improve local governance and land tenure security, including on newly developed irrigation sites.

## **II. Project description**

### **A. Project area and target group**

6. The project area comprises several districts and 21 rural communes in the two regions of Menabe and Melaky. The project is expected to benefit 40,000 households directly (approximately 200,000 people), equivalent to 40 per cent of those living in the project area. By the end of the project, half the total target population will have improved land tenure security. The project area, target group and participation, development objectives, harmonization and alignment with policies and strategies, remain unchanged with respect to the President's report, as summarized below.

### **B. Project development objective**

7. The objective of the project is to improve access by the rural poor to land and water resources in order to optimize agricultural production and ensure a sustainable increase in their incomes. The project supports improved land tenure security and agricultural production, and the management of watershed areas. It also focuses on strengthening support for the value chain approach and the creation of linkages between producers and markets.

### **C. Components/outcomes**

8. The project has two technical components, which remain unchanged: (i) support to local governance and land tenure security; and (ii) sustainable development of the productive base.
9. No new objective or component will be created with this supplementary loan. Since the portfolio review conducted in December 2008, all supervision missions, the mid-term review (September 2009) and the last portfolio review (March 2011) have recommended strengthening and accelerating activities in support of sustainable production development, using an approach focused on developing value chains. The supplementary funds will be used to reinforce or reorient certain activities in land tenure and agriculture to achieve a definitive shift from the approach used under component 2 (sustainable development of the productive base), to an approach based on value chains and market access.

### **III. Project implementation**

#### **A. Approach**

10. The Ministry of Agriculture – acting as the lead project agency – is responsible for coordinating project implementation through a coordination unit based in Morondava. The successful start-up in 2006 was followed by a slippage in activities in 2007. Steps were taken to restructure the project team between June and October 2008. These measures were successful in strengthening the delivery of project activities and substantially improving disbursements.

#### **B. Organizational framework**

11. As of 31 July 2011, after four and a half years of implementation, the project is performing well with loan expenditure totalling SDR 4.73 million (approximately US\$7.3 million), which represents 52 per cent of the project loan. Currently all staff and logistical resources are in place, and the project management unit, its decentralized branches and partner NGOs are all fully operational and engaged in managing and implementing all project activities.

#### **C. Planning, monitoring and evaluation, and learning and knowledge management**

12. The project is included under the Madagascar country programme unit (CAPFIDA, see [www.capfida.mg](http://www.capfida.mg)) and participates in the monitoring and evaluation (M&E) and knowledge management initiative known as ZARAFIDA or SEGS (Suivi-Evaluation et Gestion du Savoir).

#### **D. Financial management, procurement and governance**

13. The flow of funds will follow the same channels and procedures as those established through the existing project. IFAD will administer the loan and directly supervise the project. There are no exceptions to the IFAD General Conditions for Agricultural Development Financing and operational policies.

#### **E. Supervision**

14. AD2M has been directly supervised by IFAD since 2009.

### **IV. Project costs, financing, benefits**

#### **A. Project costs**

15. The table shows current costs for AD2M compared with restated costs. The additional funding of US\$5.17 million is intended to strengthen activities to develop the productive base and, in particular, measures to promote easier market access for producers and develop the agriculture sector through a value chain approach. More specifically, the activities to be strengthened with additional funding are: (i) opening up access to agricultural production areas; (ii) making adaptations to increase production capacity for identified markets; (iii) structuring services; and (iv) establishing partnerships between producers and the private sector within value chains in the project regions.

**Table**  
**AD2M cost summary**  
**(Thousands of United States dollars)**

<i>Component/subcomponent</i>	<i>IFAD (loan + grant)</i>	<i>Other donors</i>	<i>Current costs</i>	<i>With additional IFAD loan US\$5.17 million</i>
<b>1. Support for local governance and land tenure security</b>	<b>6 119</b>	<b>1 308</b>	<b>7 427</b>	<b>9 947</b>
Local governance and capacity-building (including IFAD grant)	3 459	519	3 978	4 986
Support for land tenure security at regional level	1 836	615	2 451	3 603
Support for PNF implementation at national level	824	174	998	1 358
<b>2. Support for sustainable development of productive base</b>	<b>5 591</b>	<b>5 777</b>	<b>11 368</b>	<b>13 568</b>
Rural roads, access, transportation and marketing	1 291	1 324	2 615	3 820
Sustainable production	1 504	1 079	2 583	2 678
Agricultural development	2 796	3 374	6 170	7 070
<b>3. Project management and M&amp;E</b>	<b>1 770</b>	<b>535</b>	<b>2 305</b>	<b>2 755</b>
<b>Total cost</b>	<b>13 480</b>	<b>7 620</b>	<b>21 100</b>	<b>26 270</b>

## **B. Project financing**

16. The total cost of the project with the new financing is approximately US\$26.27 million. The sources of financing are: (i) IFAD supplementary loan of SDR equivalent of US\$5.17 million; (ii) original IFAD loan of SDR 9.1 million (approximately US\$13.12 million); (iii) original IFAD grant of SDR 255,000 (approximately US\$365,000); (iv) US\$3.96 million from the European Union; (v) US\$442,000 from NGOs (including Intercooperation); (vi) US\$2.68 million from the Government; and (vii) US\$527,000 from the beneficiaries.
17. The Republic of Madagascar finances taxes and import duties.

## **C. Summary benefit and economic analysis**

18. Income increases are calculated on the basis of economic benefits derived from the main crops and land sizes cultivated. They are estimated using daily wage labour (agricultural tasks are budgeted based on a daily wage of 3,000 Ariary). Where agricultural tasks are performed by unremunerated family members, incomes are expected to multiply, depending on the crop in question: by two in the case of rice, vegetable gardening and tobacco, and by one and a half in the case of other crops and the rearing of small livestock. The production of food crops is expected to increase from 68,000 tons to 165,000 tons as a result of the expansion and intensification of production, with increased food security and improved marketing resulting in substantial income gains.
19. If the proposed supplementary loan is approved, it will be possible to attain the economic rate of return of the project as estimated at appraisal, namely 26.6 per cent.

## **D. Sustainability**

20. Sustainability is built into the project through the support provided to farmers' organizations, rural finance institutions, decentralized bodies (communes, districts), NGOs and private sector service providers that will pursue activities when the project ends. Project benefits achieved so far, such as income growth and increased household food security, appear highly likely to be sustainable and



are well captured and monitored by the project's M&E system and, at the national level, by CAPFIDA.

## **E. Risk identification and mitigation**

21. The project design document indicates as a major risk the remoteness and size of the project area (covering 45,000 square kilometres). Among the risks cited in President's report is the possibility of not all financial partners making their contribution as originally planned.
22. Thus far, the current political crisis has not affected implementation of the country programme. All projects are ongoing and continue to serve the local population; the de facto government is servicing the debt to IFAD and providing all counterpart resources. In addition, under the guidance of the former country programme manager, the country programme unit and AD2M project management unit had prepared contingency plans to mitigate these risks and taken steps to avoid any serious disruption in activities. These measures have proven to be efficient as the project has been able to continue its activities without any disruption despite the political crisis.

## **V. Corporate considerations**

### **A. Compliance with IFAD policies**

23. The project's objectives are consistent with the IFAD country strategic opportunities programme for Madagascar (2007-2012). IFAD is recognized in Madagascar for its expertise in activities related to agricultural production and has a significant comparative advantage in this field.
24. Pursuant to IFAD's environmental assessment procedures, the project has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact.
25. The project strategy for gender equality is based on national policy, on IFAD's gender strategy and on the experiences and best practices developed in previous projects in Madagascar.

### **B. Alignment and harmonization**

26. The project is fully consistent with the Government's decentralization policy, the MAP and the sector-wide approach being developed for agriculture (*Programme sectoriel agricole*). Project support for rural organizations and local communities is identified and outlined in the development plans of communes where the project is operational. The project is part of the national land reform programme (*Programme national foncier* [PNF]). All cofinanciers have signed a project partnership agreement. Activities implemented at the regional level are documented by the PNF and will eventually be scaled up throughout the country. Specific partnerships have been forged under the project, for instance with Intercooperation, the Swiss foundation for development and international cooperation, and with local organizations under the local governance component.

### **C. Innovations and scaling up**

27. Given the wide recognition of its expertise in Madagascar, IFAD is well positioned to innovate in the area of rural development. Promoting and introducing innovation is a key driver in the project. Practical and targeted training for producers will be necessary for scaling up.

### **D. Policy engagement**

28. The project, and more specifically its first component, support to local governance and land tenure security, aims at piloting the implementation of land tenure policy at the regional level. Strong engagement with water user associations and other infrastructure and resource user groups will enable the project to make useful

contributions to policy dialogue on issues related to the operation and maintenance of decentralized infrastructure and community-based natural resource management, particularly water resources. The AD2M intervention strategy is consistent with the Government's decentralization policy. The project supports capacity-building for commune authorities and for commune and regional committees responsible for planning and monitoring development activities. The project also supports the communes in the identification of activities for inclusion in their development plans. This enables development actions and external support to be coordinated and harmonized, and helps promote ownership among beneficiary communities. Project support for rural organizations and local collectivities is identified and outlined in the development plans of communes where the project is active.

#### **E. Proposed modifications to the financing agreement**

29. Upon approval of the Executive Board, the financing agreement will be amended to reflect the IFAD supplementary financing. This financing strengthens the financing plan initially agreed at design and does not imply any modification of the project description.

#### **VI. Legal instruments and authority**

30. An amendment to the current financing agreement between the Republic of Madagascar and IFAD will constitute the legal instrument for extending the proposed supplementary financing to the borrower/recipient.
31. The Republic of Madagascar is empowered under its laws to receive financing from IFAD.
32. I am satisfied that the proposed supplementary financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

#### **VII. Recommendation**

33. I recommend that the Executive Board approve the proposed supplementary financing in terms of the following resolution:

RESOLVED: that the Fund shall make a supplementary loan on highly concessional terms to the Republic of Madagascar in an amount equivalent to three million three hundred and fifty thousand special drawing rights (SDR 3,350,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze  
President

## Logical framework

Ranking of Objectives	Performance Indicators	Means of Verification	Critical Assumptions and Risks
<p><b>Overall project objective:</b> Improve good governance and land security for the rural poor living in the western part of the country, to promote the sustainable development of their agricultural productive base</p> <p><b>Specific objectives:</b></p> <p><b>1- Support implementation of the decentralized land use management policy</b>(under the framework of National Land Use Management Plan (PNF) and the Land and Property Rights Directorate (DDSF) nationally, and carry out community land use planning actions regionally (Menabe and Melaky) to ensure sustainable land tenure security and rights to the rural poor</p> <p><b>2- Improve the productive base of the target sustainably,</b> through: optimization of production and improved management of small watersheds and application of erosion control and agroecological techniques for environmental conservation; intensification of farming operations and diversification of income earning opportunities through financing micro-projects and capacity-building for farmers' organizations.</p> <p><b>Outputs/Components</b></p> <p><b>Component 1– Support to local governance and land tenure security</b> (Local governance, capacity building and empowerment of farmers organisations, Regional and local support for land titling in the project areas, Strengthening of national plan, institutions and services).</p> <p><b>Result 1:</b> Establishment of farmers' organizations and capacity-building within the project areas</p> <p><b>Result 2:</b>PNF is prepared at the national level and implemented in the rural communes within the project intervention area</p> <p><b>Result 3:</b> Access to land and titling of property rights are assured for poor populations in small watersheds and on hillside slopes in the communes within the project area</p> <p><b>Result 4:</b>regulatory framework for watershed</p>	<p>- Rate of reduction in prevalence of extreme poverty,+ malnutrition (children under five)</p> <p>-Progress achieved on regulations relating to land tenure and agricultural development.</p> <p><b>National level</b></p> <p>- Actual use of public expenditure incurred for implementation of this project;</p> <p>- Changes in socio-economic impact indicators [RIMS]</p> <p>- Funds mobilized to support the National Land Use Plan (PNF) and Land and Property Rights Directorate (DDSF) approach</p> <p><b>Project areas</b></p> <p>- Number of households benefiting from project activities ( target 40,000 households)</p> <p>- Literacy rate among women and men</p> <p>- training sessions in PNF and DDSF services</p> <p>- communal land kiosks set up and operational</p> <p>- households and women having gained access to land titles (RIMS)</p> <p>- Number of awareness-raising meetings held at the <i>fokontany</i> (FKT) and commune level</p> <p><b>Targets: 21 communes titled; 10 communal offices set up; and 2 100 more families with access to land.</b></p> <p>- households benefiting project activities and with improved food security (RIMS)</p> <p>- farmers by gender having adopted the technologies recommended (RIMS)</p> <p>- Increase in hectares under rice, soybeans, maize, cassava and vegetables (RIMS) and holdings of zebu cattle</p> <p>- cases and areas where agroecological techniques have been adopted</p> <p>- improvement in soil upgrading and protection</p> <p>- farmers' organizations operational, and number of members , FO chaired by women</p> <p><b>-Target: Capacity building of 40,000 poor farm households.</b></p> <p><b>- 5 600 new producers with access to irrigated plots</b></p> <p><b>- 10 000 hectares of additional cultivated area</b></p> <p><b>- 90 000 tonnes of additional produce</b></p>	<p>-Poverty surveys and reports;</p> <p>-RIMS data collected by the project</p> <p>- Govt. statistical reports.</p> <p>-Project Regional poverty surveys</p> <p>- Project impact surveys (start-up, midterm, completion)</p> <p>- Monitoring and evaluation surveys</p> <p>- Food Security and Nutrition Programme (SEECALINE) statistics</p> <p>- Annual impact assessment reports</p> <p>- DDSF studies and consultations</p> <p>- Land inventory records</p> <p>- Monitoring and evaluation reports of land services.</p>	<p>-Govt's and donor commitments;</p> <p>-Rapid approval, legislation and enactment of proposed policies and regulations</p> <p>-- Political stability</p> <p>- Debt management and donor support</p> <p>- National policy favouring agricultural development</p> <p>- Absence of natural catastrophes or exceptional climatic events</p> <p>- Producers' capacity to adopt a medium-term strategy</p> <p>- Government support for operational implementation of the PNF</p> <p>- Capacity of national and regional land offices to evolve</p> <p>- Effectiveness of decentralization and coordination among donors (Millennium Challenge Account [MCA], European Union [EU])</p> <p>- Motivation of populations to develop</p> <p>- Mobilization of populations to organize themselves</p> <p>- Degree of acceptance of new techniques</p> <p>- Availability of quality service providers</p>

Ranking of Objectives	Performance Indicators	Means of Verification	Critical Assumptions and Risks
<p>management is defined nationally and implemented in the project area</p> <p><b>Component 2 – Sustainable development of the productive base</b> (Strengthening farming systems of agricultural production, Development of productive infrastructures)</p> <p><b>Result 1:</b> Inland valleys, small watersheds and hillside slopes in the project areas are optimized, taking into account environmental protection issues,</p> <p><b>Result 2:</b> Intensification of farming operations and diversification (microprojects) in the project areas</p> <p><b>Result 3:</b> Construction of 650 km of feeder roads</p>	<p><b>- 580 diversification microprojects carried out (2 000 beneficiaries)</b></p>		

## **Key reference documents**

### **Country reference documents**

FAO/FIDA/PAM, Initiative sur la flambée des prix alimentaires, Plan d'action à impact rapide, Madagascar, août 2008

FIDA, Initiative SEGS phase II- ZARAFIDA (Suivi-Evaluation et Gestion des Savoirs) du Programme FIDAMadagascar, Manuel de référence, août 2010

FIDA, Initiative SEGS (Suivi-Evaluation et Gestion des Savoirs) du Programme FIDAMadagascar, Manuel de référence, août 2007

Poverty Reduction Strategy Paper (PRSP) adopted in 2003

Madagascar Action Plan (2006)

The National Rural Development Programme (2006)

Ministère de l'Economie, du Commerce et de l'Industrie, Rapport annuel de mise en œuvre du MAP 2007, novembre 2008

UNDP, Human Development Indices, November 2010, [http://hdr.undp.org/en/media/HDI\\_2010\\_EN\\_Tables.pdf](http://hdr.undp.org/en/media/HDI_2010_EN_Tables.pdf)

### **IFAD reference documents**

Projet d'appui à la gouvernance locale, à la sécurisation foncière et à la mise en valeur durable dans le Menabe et Melaky- Appraisal Report (November 2005)

Strategic Framework 2007-2010

Strategy for Knowledge Management

Innovation Strategy

Anti-Corruption Policy