

## SCHEDULE 1 to ANNEX I

### LAND TENURE PROJECT

This Schedule 1 generally describes and summarizes the key elements of a land tenure Project that the Parties intend to implement in furtherance of the Land Tenure Objective (the "*Land Tenure Project*"). Additional details regarding the implementation of the Land Tenure Project will be included in the Implementation Plan and in relevant Supplemental Agreements.

#### 1. Background.

The Government identified the lack of clear land ownership rights as the primary barrier to increased rural investment and agricultural productivity growth. Similarly, the consultative process consistently identified land insecurity and inefficient government land services as high priority areas for reform. Presently, there is widespread distrust of the formal property registration system. Also, a severe backlog exists of requests for title that cannot be processed due to a lack of resources and cumbersome registration processes. Although informal land tenure practices provide a land user with a relative degree of local land tenure security, the conflict between the informal and formal practices is reported to be generating an increasing number of disputes, constraining rural investment and land use improvements, and hindering the expansion of collateral-based lending. As long as land remains an informal and insecure asset, it is more likely to be utilized for subsistence needs than for other revenue-generating activities, and rural credit and land market development will be limited. There is a demand for and a need to blend traditional and modern property recognition and ownership practices so that land tenure security will be increased and transaction costs lowered, particularly in areas where the rural market economy is developing new opportunities for market-based income growth.

#### 2. Summary of Project Activities and Expected Results.

The Land Tenure Project is designed to increase land titling and land security in the Zones and improve the efficiency of land service administration. These, in turn, will contribute to better land use, increased rural enterprise investment, and a better environment for collateral-based lending. The Land Tenure Project will strengthen institutional and human resource capacity for land administration services at national, regional, and local levels to ensure sustainability of reforms achieved by the Land Tenure Project. MCC funding will assist Madagascar in formalizing, implementing, and making more efficient its National Land Policy Framework ("*PNF*"), which is considered by property rights experts a coherent approach to land tenure reform that builds from customary into modern practices progressively. The approach is threefold:

1. Formalize the National Land Policy Framework through a communications and education campaign leading to stronger legal recognition of new land tenure procedures, documents, and techniques.
2. Protect property rights and formalize customary rights to land (titling or certification), resolve disputes, and reduce transaction costs by improving the efficiency and transparency of land service administration through system modernization, computerization, and decentralization.

3. Build human capacity for land tenure policy development and land administration services at national, regional and local levels that focuses, *inter alia*, on land tenure regularization (*e.g.*, titling, certification, and dispute resolution).

The Land Tenure Project is aimed at eliminating short-run bottlenecks to poverty-reducing growth and creating effective processes first in priority rural zones where there is a clear opportunity for increased productivity and market participation. This will enable more remote or traditional communities to formalize their land tenure over time as their social and economic conditions create incentives for increased use by such communities of improved national and local land administration services.

The following summarizes the contemplated Land Tenure Project Activities, anticipated results, and, where appropriate, regular benchmarks that may be used to monitor implementation progress. Performance against the benchmarks and the overall impact of the Land Tenure Project will be assessed and reported at the intervals to be specified in the M&E Plan (described in Annex III) or as otherwise agreed by the Parties from time to time. The Parties expect that additional benchmarks will be identified during the implementation of the Land Tenure Project. Estimated amounts of MCC Funding for each Project Activity for the Land Tenure Project are identified in Annex II of this Compact. Conditions precedent to each Land Tenure Project Activity and sequencing of the Land Tenure Project Activities shall be set forth in the Disbursement Agreement or other relevant Supplemental Agreements.

(a) *Activity: Support the Development of the Malagasy PNF*

Madagascar's initial PNF articulates an integrated coherent approach to land tenure reform. To enable necessary land tenure reforms, MCC Funding will support the following activities designed to assist Madagascar in developing and promoting the country's initial PNF:

(i) Carry out information, education and communication campaigns designed to explain the specific land tenure reforms contemplated in the initial PNF to potential beneficiaries of such reforms, the staff of the National Land Service Administration and other interested parties.

(ii) Consolidate and refine the PNF, during and after completion of the campaigns outlined above, which may result in additional white papers, additional land law proposals, including property tax policy and corresponding legal reform, and suggested donor interventions.

(iii) Conduct public outreach and dissemination of the final PNF after completion of the consolidation and refinement outlined above.

The *expected results* from these activities are:

- (1) The adoption of new land legislation that reflects a more coherent approach to land tenure reform and provides stronger legal recognition of new land tenure procedures, documents (certificates) and techniques.

- (2) Consensus and broad acceptance for land tenure reform from the National Land Service Administration, potential beneficiaries of such reforms and other interested parties.
- (3) The adoption of a new land law that reflects a more coherent approach to land tenure reform and provides stronger legal recognition of new land tenure procedures, documents (certificates) and techniques.

The *key benchmark* to measure progress is expected to be:

- (1) Submission to Parliament of draft land legislation based on the final PNF and that recognizes improved land tenure procedures, documents (certificates) and techniques.

**(b) Activity: *Improve the Ability of the National Land Service Administration to Provide Land Services***

To improve the efficiency and transparency of services provided by the National Land Service Administration with respect to property transactions, MCC Funding will support the following activities to be undertaken in the central offices in Antananarivo and in the local land management offices in the Zones:

- (i) Index and Restore Documents.
  - (1) Ask all current holders of land titles and other formal ownership documents to bring these documents to existing land offices to compare the information currently on record with the physical documents being produced.
  - (2) Take inventory of the existing 800,000 land documents (land titles and surveys) currently stored at the existing land management offices and produce a plan for (i) restoring the damaged land documents and (ii) scanning and digitizing all of the existing documents, including those produced by current holders above.
  - (3) Restore a portion of the damaged land titles and surveys in and around Antananarivo and in the Zones (approximately 300,000).
  - (4) Resolve disputes and address irregularities encountered in the indexing and restoration process.
- (ii) Modernize and Computerize System.
  - (1) Install an automated land parcel information system containing property rights information relating to each parcel (*e.g.*, date of transfer, identification of occupant, legal property description, physical boundaries and restrictions).

- (2) Scan and digitize a portion of the existing land titles and surveys in and around Antananarivo and in the Zones (approximately 400,000), including those produced by current holders.
- (3) Procure satellite imagery for use in generating parcel maps.
- (4) Train staff of National Land Service Administration (central and regional offices).
- (5) Introduce mobile service units of the National Land Service Administration.

The *expected results* from these activities are:

- (1) The protection of existing property rights.
- (2) The ability to identify competing property claims and prioritization of property rights.
- (3) Low-cost and timely property transactions and other related services, including value-added GIS products.
- (4) Central integration of information relating to property registration held at local land management offices.
- (5) Elimination of bottlenecks and delays in the present land registration system.
- (6) The development of technical capacity and skills within the land management offices in order to sustain reforms.

The *key benchmarks* to measure progress are expected to include:

- (1) Percentage of land documents inventoried, restored and/or digitized.
- (2) Average time and cost required to carry out property transactions at the national and local land management offices.

(c) *Activity: Decentralization of Land Services*

MCC Funding will finance the following activities designed to decentralize land services:

- (i) Build and equip new local land management offices (ten per Zone).
- (ii) Finance an initial two-year period of the operating costs of such new land management offices.
- (iii) Provide on-the-job training to local land management office staff.

- (iv) Establish procedures and practices for communications and coordination between the National Land Service Administration and local land management offices.
- (v) Develop capacity for on-going management of records in the local land management offices.

The *expected results* from these activities are:

- (1) Improved access and affordability of property transactions and other related services at local land management offices and sustainability of the same.
- (2) Increased confidence in the formal land tenure system by potential beneficiaries.

The *key benchmark* to measure progress is expected to be:

- (1) Average time and cost required to carry out property transactions at local land management offices.

(d) ***Activity: Land Tenure Regularization in the Zones***

MCC Funding will finance the following activities designed to facilitate the issuance of titles or land rights certificates for potential beneficiaries in the Zones:

- (i) Formalize tenure in selected municipalities (communes) using one of three registration methods endorsed by the National Land Service Administration.
- (ii) Implement a fast-track titling and/or property registration process within selected areas within the Zones.

The *expected results* from these activities are:

- (1) Formalization of traditional land use and tenure practices.
- (2) Improvement in land tenure security and standardized land documentation processes and procedures.
- (3) Reduction in time required for titling and/or property registration for potential investors.

The *key benchmarks* to measure progress are expected to include:

- (1) Percentage of land in pilot sites in the Zones that is securely demarcated and registered.
- (2) Average time and cost required to respond to investor requests for property transactions by the fast-track titling and/or property registration process.

(e) **Activity: Information Gathering, Analysis and Dissemination**

MCC Funding will finance the following activities designed to improve the capacity of the National Land Service Administration and the local land management offices to sustain the results as listed above (in paragraphs (a) through (d) of this Section 2):

(i) Finance the cost of a resident long-term land tenure expert with international experience to provide ongoing advice and technical assistance regarding policy matters (e.g., to eliminate market distortions) to MCA-Madagascar and policy-level government institutions, offices or agencies.

(ii) Finance occasional short-term national and international experts to provide more operational ongoing technical assistance and training to the staffs of the National Land Service Administration and local land management offices.

(iii) Organize and conduct workshops, seminars and other outreach activities with intended beneficiaries and other stakeholders in order to obtain their feedback and comments to improve procedures relating to property transactions and other related services.

(iv) Organize formal training and study tours outside of Madagascar for the staffs of the National Land Service Administration and local land management offices.

(v) Complete needs assessments for future reform relating to (i) land conflict resolution methods, (ii) policy development and (iii) legal framework, including property tax policy and corresponding legal reform, based on lessons learned from the activities carried out under the Land Tenure Project.

**3. Beneficiaries.**

The principal beneficiaries of the Land Tenure Project are expected to be current land title holders and households and enterprises in the Zones without formal land rights. Following the selection of a Zone, MCA-Madagascar shall publish a more precise identification of the beneficiaries as provided in Section 2(c) of the Program Annex. Certain activities in the Land Tenure Project will have a national scope and impact. These include upgrading the archives and information systems of the National Land Service Administration in Antananarivo, supporting the development of the PNF and knowledge management. Other activities, including the establishment of local land management offices, the development of local expertise and the formalization of traditional land tenure within selected communities, will have specific impact in the Zones.

**4. Donor Coordination.**

Land security is a key element of the Government's development strategy. The country's PRSP recommended establishment of the PNF. The PNF was launched in early 2004 and has attracted the attention of several donors. To date, however, no donors have funded a systematic approach to implement this program on a national scale.

At present, the French government is supporting a technical advisor to the Ministry of Agriculture to develop further the PNF. Several donors are preparing to engage more fully on

land tenure issues in Madagascar. The European Union, International Fund for Agricultural Development (IFAD), Food and Agriculture Organization (FAO) and Agence Française de Développement (AFD) have expressed strong interest in and/or commitment to supporting the establishment of 12 local land management offices. These plans are in varying stages of development. For example, IFAD has commenced a pilot project and the EU intends to provide broader budget support. In preparation for these donor activities, a series of project design activities are being undertaken by various donors. The World Bank (WB) is funding a comprehensive review of land tenure reform proposals in order to refine and further develop the PNF and identify areas of WB intervention.

The Land Tenure Project complements and catalyzes the activities of other donors in the land tenure area. Given the size of MCC support and depending upon the rate of disbursement, the experience gained from the Land Tenure Project will help shape and consolidate other donor support. The Ministry of Agriculture is determining how to allocate donor resources to the needs identified in the PNF.

#### **5. U.S. Agency for International Development.**

USAID/Madagascar has contributed to reform in land management practices through its community-based natural resource management project but has not funded extensive or direct work on land tenure reform. USAID and its partners have contributed to the consultative process on the initial PNF and assisted in efforts to introduce a secured transactions law in 2002. USAID/Washington can provide land tenure and property registration assistance to MCC and/or MCA-Madagascar as more specific needs are identified.

#### **6. Sustainability.**

New government institutions have great potential to provide sustainable vehicles for land management and land tenure reform. By decentralizing property transaction and other related services, beneficiaries will be more likely to utilize the system, which should result in better and more current record keeping. In addition, the Land Tenure Project Activities can be implemented with varying levels of technology that are appropriate to the local resources available (e.g., human resources, the availability of electricity). The Land Tenure Project will provide long and short-term technical assistance to ensure the effective design and implementation of Project Activities. The Government intends to use additional donor funds after the Compact to sustain the changes and reforms that may be achieved in the Land Tenure Project and to complete the implementation of the PNF outside the Zones. It is expected that local land management offices will be self-funding based on service fees and user charges after the initial two years of undertaking the Project Activities under this Compact.

#### **7. Policy and Legal Reform.**

To realize the full benefits of the Land Tenure Project Activities, the following legal reforms will be required in two stages, the Disbursement Agreement to specify in more particularity the sequencing and requirements of each:

- (a) The adoption of new land laws that reflects the PNF and provides stronger legal recognition of new land tenure procedures, documents and techniques, including a law to give legal character and value to certificates.

- (b) The adoption of ancillary and related legal and regulatory reforms that streamline property transactions and related services, including property tax policy and corresponding legal reforms, *e.g.*, to prevent or eliminate potential negative tax consequences on title or certificate holders.

## SCHEDULE 2 to ANNEX I

### FINANCE PROJECT

This Schedule 2 generally describes and summarizes the key elements of the finance Project that the Parties intend to implement in furtherance of the Finance Objective (the "*Finance Project*"). Additional details regarding the implementation of the Finance Project will be included in the Implementation Plan and in relevant Supplemental Agreements.

#### 1. Background.

Through the consultative process, the Government determined that the mobilization of domestic savings and the reduction of the cost of credit are priority conditions for sustained economic growth and poverty reduction in Madagascar. In order to accomplish these goals, it is necessary (i) to increase efficiency and reduce risk in the country's financial system; (ii) to improve the real and perceived creditworthiness of potential borrowers so that financial institutions can increase lending; and (iii) to introduce greater competition among banks and other financial institutions. In addition, the Government determined that the introduction of more appropriate financial products into the financial system (e.g., savings bonds, Treasury Bills in small denominations, warehouse receipts, leasing) and improvement in the manner through which financial institutions distribute their products to buyers will increase the alternatives for investors and the availability of credit in rural areas.

#### 2. Summary of Project Activities and Expected Results.

Given the goals of increasing efficiency and reducing risk in the financial system, improving creditworthiness, and introducing greater competition, the Finance Project is designed to strengthen different areas of the financial system. Most of the Finance Project Activities are aimed at assisting in the improvement of key foundations of a modern financial system: a sound legal environment, an efficient payments and settlement system, a professional Ministry of Finance, and a Central Bank with various monetary policy implementation tools at its disposal. The other Finance Project Activities are aimed at assisting lenders and borrowers to build on that foundation by strengthening accounting services, building capacity among rural producers to access the financial system, and increasing the capabilities of microfinance institutions ("*MFIs*").

The following summarizes the Finance Project activities, anticipated results, and, where appropriate, regular benchmarks that can be used to monitor implementation progress. Performance against the benchmarks and the overall impact of the Finance Project will be assessed at the intervals specified in the M&E Plan (described in Annex III) or otherwise agreed by the Parties from time to time. The Parties expect that additional benchmarks will be identified during the implementation of the Finance Project. The estimated amounts of MCC Funding for each Project Activity of the Finance Project are identified in Annex II. Conditions precedent to each Finance Project Activity and sequencing of the Finance Project Activities shall be set forth in the Disbursement Agreement or other relevant Supplemental Agreements.

(a) **Activity: Promote Legal and Regulatory Reform**

MCC Funding will support the following activities designed to improve the efficiency of the Malagasy financial system:

(i) Finance the development of new banking laws and laws regulating financial instruments and markets, including enabling legislation for expanded intermediation and new credit and investment instruments.

(ii) Train government officials, judges and potential beneficiaries on the contents and application of these new laws.

(iii) Promote public awareness of these new laws through an educational and public awareness campaign.

The *expected result* of these activities is:

- (1) Legislation permitting a multi-tiered financial system.

The *key benchmark* to measure progress is expected to be:

- (1) Submission, passage and implementation of new legislation that permit a multi-tiered financial system, as recommended by outside experts and relevant commissions.

(b) **Activity: Reform Sovereign Debt Management and Issuance**

MCC Funding will support the following activities designed to reform sovereign debt management and issuance:

(i) Automate all sovereign debt issuance operations.

(ii) Create new forms of sovereign debt that will appeal to a broader set of investors, including new denominations of Treasury bills.

(iii) Create a fiscal policy unit within the Ministry of Finance that will advise the Minister of Finance on sovereign debt portfolio management and issuance alternatives.

The *expected results* of these activities are:

- (1) Wider distribution of treasury bills among entrepreneurs and enterprises.
- (2) Increased investment of savings in financial instruments.
- (3) Increased lending by financial institutions.

The *key benchmarks* to measure progress are expected to include:

- (1) Number of holders of smaller denomination treasury bills.
- (2) Number of treasury bills held outside of Antananarivo.
- (3) Volume of treasury bill holdings.

(c) **Activity: Strengthen the National Savings Bank ("NSB")**

The NSB has the largest branch network and customer base of any financial institution in Madagascar and the greatest potential of any financial institution to reach large numbers of rural poor. MCC Funding will support the following activities designed to create conditions to permit NSB to administer funds on behalf of MCA-Madagascar directed to MFIs and, thereby, improve access to financial services in the Zones:

- (i) Increase the operational efficiency of the NSB through modernization and computerization, in particular by automating branch operations and agency issuance for sovereign debt instruments.
- (ii) Increase the quality of service through staff training and the establishment of new NSB branches in the Zones.
- (iii) Increase mobilization of domestic savings.
- (iv) Strengthen capacity to manage liquidity facilities for MFIs.

The *expected results* for these activities are:

- (1) Availability of savings products (*e.g.*, access to treasury bills, savings accounts) in rural areas.
- (2) Increase in administration of funds by NSB on behalf of MCA-Madagascar directed to MFIs.

The *key benchmarks* to measure progress are expected to include:

- (1) Number of new NSB bank accounts opened in the Zones.
- (2) Volume of savings collected by NSB in the Zones.

(d) **Activity: Provide New Instruments for Agribusiness Credit**

MCC Funding will support the following activities designed to provide new instruments for agribusiness credit and increase financial lending instruments available for rural producers in the Zones:

- (i) Create a revolving fund for refinance of MFI assets.
- (ii) Extend warehouse receipts and leasing as a means of extending credit to rural and agricultural producers.

(iii) Conduct a major study on constraints and alternatives for providing access to market-based credit to agribusiness all along the value chain.

The *expected results* for these activities are:

- (1) Increased MFI lending in the Zones.
- (2) Increased secured warehoused based credit available.
- (3) Identification of credit instruments appropriate for the agricultural value chain (producers, packers, processors, shippers, exporters and other enterprises) in the Zones.
- (4) Improved stability of MFIs.

The *key benchmarks* to measure progress are expected to include:

- (1) Volume of bank credit to rural borrowers.
- (2) Volume of MFI lending in the Zones.
- (3) MFI portfolio-at-risk delinquency rate.

(e) ***Activity: Modernize National Interbank Payments System***

MCC Funding will support the following activities designed to modernize the bank payment and settlement system:

(i) Conduct a design and cost study for a new national interbank payments system that will reduce check clearing from the current 45 days to D+3.

(ii) Provide information technology and telecommunications equipment and installation services, if the above study demonstrates feasibility and the results are acceptable to MCC (including within the expected budget or if additional financing is secured).

The *expected results* for these activities are:

- (1) Implementation of an efficient and secure modern interbank payment system.
- (2) Increased confidence in and use of the formal payment system by a wider variety of economic actors.

The *key benchmarks* to measure progress are expected to include:

- (1) Time period for check clearing.
- (2) Volume of funds in the payment system.

(f) **Activity: Improve Credit Skills Training, Increase Credit Information and Analysis**

MCC Funding will support the following activities designed to improve the perceived creditworthiness of potential borrowers, in particular to improve credit skills training, increase credit information and enhance ability of financial institutions to conduct credit analysis:

- (i) Increase awareness of new accounting standards and provide sustainable training of finance and accounting professionals through Madagascar including accountants, business managers, and microfinance loan officers.
- (ii) Create a central database accessible by all providers of credit that contains credit data and payment and repayment history.

The *expected results* for these activities are:

- (1) Utilization of the new accounting standards in the Zones.
- (2) Increased reliability of financial information for creditors.

The *key benchmark* to measure progress is expected to be:

- (1) Reporting of credit and payment information into the central database.

**3. Beneficiaries.**

The principal beneficiaries of the Finance Project are expected to be rural producers and enterprises located in the Zones. Following the selection of the Zones, MCA-Madagascar will publish a more precise identification of the beneficiaries as provided in Section 2(c) of the Program Annex.

Certain activities in the Finance Project activities will have national scope and impact (*e.g.*, legal reforms, interbank payment system) while other activities (*e.g.*, support to MFIs) will have specific impact in the Zones.

**4. Donor Coordination.**

MCA-Madagascar plans to participate in an evaluation of the financial sector to be conducted by the World Bank and IMF. To date, no donors have funded activities to reform the Malagasy financial sector on a national scale; however, there have been several donor-funded projects in microfinance. The World Bank, UNDP, European Union, Agence Française de Développement, African Development Bank, International Labor Organization and USAID have funded activities to study and build capacity of MFIs, improve the legal and regulatory framework for microfinance, and provide financing for MFIs. MCC Funding in the Finance Project will build on these interventions by implementing many of the recommendations of the studies and lessons learned from these other donor projects.

## **5. Coordination with U.S. Agency for International Development.**

USAID has helped to develop access to financial services for the poor by supporting the NSB in becoming a profitable private service provider in the area of microfinance by increasing its role as a financial intermediary for low-income savers in the informal sector. In addition to continuing to strengthen capacity of NSB, the Finance Project will build on USAID-funded activities related to warehouse receipts and operationalize many of the recommendations listed in the USAID's 2003 microfinance study. MCC and MCA-Madagascar, where relevant, will solicit input from USAID on the implementation and monitoring of the Finance Project.

## **6. Sustainability.**

The Finance Project will (i) support the modernization of the national payments and settlement system; (ii) strengthen the accounting services; (iii) decentralize the treasury bill auction system; (iv) strengthen MFIs; and (v) build capacity among rural producers to access the financial system, all of which actions are intended to promote competition among financial institutions. An enhanced competitive environment is intended to create a cycle that will attract more funds into the financial system and ensure that those funds are allocated at better prices. In association with the World Bank and the IMF, a study of capital markets constraints and opportunities will be undertaken in 2005. The availability of diverse products and services from both capital markets and commercial bank will improve pricing and quality of those products and services. The Finance Project Activities, coupled with the legal and regulatory reforms identified in Section 7 below, will continue to have an impact after expiration of the Compact. Since the activities are largely focused on unleashing the private sector, if successfully implemented under the Compact, they should be self-sustaining.

## **7. Policy and Legal Reform.**

The Government has identified the following policy, legal and regulatory reforms and actions that it intends to pursue in support of the Finance Project:

(a) Establish new roles, responsibilities, reporting requirements, and organizational procedures of the Central Bank required for the decentralization of treasury bill operations and their oversight.

(b) Adopt legislation or regulations relating to the new payment and settlement system, including giving legal status to electronic images and signatures.

(c) Adopt legislation establishing a central credit and payment database and defining reporting requirements and procedures for all financial institutions.

(d) Adopt necessary legal and regulatory changes to permit adoption of new financial instruments identified through the agribusiness credit study described in Section 2(d) above.

## SCHEDULE 3 to ANNEX I

### AGRICULTURAL BUSINESS INVESTMENT PROJECT

This Schedule 3 summarizes and describes the key elements of an agricultural business investment project in furtherance of the Agricultural Business Investment Objective (the "*Agricultural Business Investment Project*"). Additional details regarding the implementation of the Agricultural Business Investment Project will be included in the Implementation Plan and in relevant Supplemental Agreements.

#### 1. Background.

The key element in the Malagasy National Agricultural Master Plan is to assist farmers in transitioning from subsistence farming to market agriculture. Low agricultural productivity and non-competitive agribusiness value chains (resulting in high rural poverty) were frequently identified during the consultative process as priority issues that must be addressed. At present, low levels of agricultural investment and profitability throughout Madagascar's agricultural economy result from insecure land rights, limited availability of credit and agribusiness finance, deteriorating transport and irrigation infrastructure, and low use by farmers of inputs such as fertilizer, machinery and pesticides. In addition, there is a limited understanding among agribusiness producers in general of market opportunities and associated requirements.

#### 2. Summary of Project Activities and Expected Results.

The Agricultural Business Investment Project will be implemented through a network of MCC funded Agricultural Business Centers ("*ABCs*") in the Zones, with a national coordinating center in Antananarivo ("*NCC*"). These centers will work with a broad set of partners and stakeholders to provide information regarding agribusiness, technology, finance and management, the lack of which constrain growth of the agribusiness sector. The ABCs will improve the quality of credit demand by enhancing the ability, at the firm level, to make better decisions on planting, input management and marketing and to be able to communicate those decisions to possible investors or lenders. There is a clear demand for higher quality resources in order to build regional and local capacity to identify and access profitable agribusiness market opportunities. Linking market opportunities and Malagasy suppliers requires enhanced capacities in market research, agricultural research, access to improved technologies, farm management and business planning, infrastructure development and policies to support productivity and investment returns in the Madagascar agribusiness sector.

The ABC network will leverage management know-how and expertise in agricultural production, policy, finance and value chains to help farmers and entrepreneurs profit from promising agricultural investment opportunities. The Agricultural Business Investment Project is consistent with and reinforces Government's efforts to stimulate the rural market economy by developing new opportunities for market-based income growth. The Agricultural Business Investment Project will also provide the opportunity to support the Government's efforts to implement the National Agriculture Master Plan and to engage in a continuing policy dialogue with relevant stakeholders on agricultural and rural development issues.

The following summarizes each component of the Agricultural Business Investment Project, activities, anticipated results, and, where appropriate, regular benchmarks that can be used to monitor implementation progress. Performance against the benchmarks and the overall impact of the Agricultural Business Investment Project will be assessed at the intervals specified in the M&E Plan (described in Annex III) or otherwise agreed by the Parties from time to time. The Parties expect that additional benchmarks will be identified during the implementation of the Agricultural Business Investment Project. The estimated amounts of MCC Funding for each Project Activity of the Agricultural Business Investment Project are identified in Annex II. Conditions precedent to each Agricultural Business Investment Project Activity and sequencing of the Agricultural Business Investment Project Activities shall be set forth in the Disbursement Agreement or other relevant Supplemental Agreements.

(a) *Activity: Create and Operate Five ABCs*

MCC Funding will support the following activities designed to promote the development and expansion of micro, small and medium sized enterprises ("*MSMEs*") in the Zones:

(i) Establish five ABCs that will offer a range of services to MSMEs and farmers in the respective Zones. These services may include assistance in the development of business and marketing plans, training in good business practices (*e.g.*, accounting) and in the promotion and adoption of improved technologies by businesses and farmers alike.

(ii) Identify local, regional and international market opportunities for MSMEs and assist them in developing effective business plans in order to improve competitiveness and access to investments.

(iii) Undertake market studies for MSMEs for key higher valued commodities, including production, economic, and financial analysis.

The *expected results* of these activities are:

- (1) Market and technology information for key commodities disseminated widely in the Zones.
- (2) Viable business plans for MSMEs in the Zones.
- (3) Adoption of improved production technologies and higher value crops by farmers.

The *key benchmarks* to measure progress are intended to include:

- (1) Number of business plans prepared by or with MSMEs.
- (2) Number of farms and enterprises employing the technical assistance received from ABCs.

**(b) Activity: Create NCC and Coordinate Activities with Government Ministries and ABCs and Identify the Zones**

MCC Funding will support the following activities designed to improve coordination between the Ministry of Agriculture and ABCs:

- (i) Establish the NCC in Antananarivo which will coordinate operations and performance in the Zones.
- (ii) Develop scopes of work and provisional budgets for the ABCs, including mission, objectives, management functions and services to be provided.
- (iii) Provide technical assistance, training and other support to enable the Government to implement effectively its National Agricultural Master Plan.
- (iv) Provide the analysis required to select the five Zones and identify the Zones.

The *expected result* from these activities is:

- (1) Improved ability of the Government to implement its National Agriculture Master Plan.
- (2) Effective information sharing and coordination among the ABCs, the NCC and relevant government agencies.

The *key benchmarks* to measure progress are expected to include:

- (1) Zones identified.
- (2) NCC created.

**(c) Activity: Identify Investment Opportunities**

MCC Funding will support the following activity designed to identify local, regional and international market opportunities and the necessary requirements and means to allow investors and producers to take advantage of such opportunities:

- (i) Provide technical assistance and conduct research to identify business opportunities and requirements in local, regional and international markets.

The *expected results* for this activity are:

- (1) Completion of five zonal investment strategies which identify local, regional, and international market opportunities and the means, especially investments, required to respond to such opportunities.

- (2) Dissemination of information regarding such market opportunities and necessary requirements through the NCC and the ABCs to local, regional, international investors and producers and donors.

The *key benchmarks* to measure progress are expected to include:

- (1) Number of cost-effective investment strategies developed for each Zone.
- (2) Number of agribusiness investment strategies developed in each Zone.
- (3) Number of investors (local, regional, international), producers, donors receiving or soliciting information from the ABCs with respect to business opportunities.

(d) ***Activity: Build Management Capacity in the Zones***

MCC Funding will support the following activity designed to increase business management expertise and technical knowledge in the Zones:

(i) Conduct training and outreach activities (information, education and communication) with MSMEs and rural producers to improve entrepreneurial capacities and management skills and disseminate best practices to enable them to operate in a more efficient manner.

(ii) Establish demonstration centers in the Zones to illustrate to rural producers the benefits of sustainable production and processing practices, including environmental stewardship factors.

The *expected results* from these activities are:

- (1) MSMEs and rural producers, trained in best practices, operate more competitively.
- (2) Rural producers and MSMEs adopt improved production and processing practices.

The *key benchmarks* to measure progress are expected to be:

- (1) Number of farms and enterprises that adopt new marketing and/or production technologies or techniques or engage in higher value production.
- (2) Value of change in marketing and production techniques.

### **3. Beneficiaries.**

The principal direct beneficiaries of the Agricultural Business Investment Project are expected to be MSMEs, rural producers and households in the Zones. Following the selection of the Zones, MCA-Madagascar will publish a more precise identification of the beneficiaries as provided in Section 2(c) of the Program Annex. Certain activities in the Agricultural Business Investment Project will have national scope and impact (e.g., investment strategy development, NCC and ABC activities, information systems and knowledge management). Other activities (e.g., training MSMEs and rural producers) will have specific impact in the Zones.

### **4. Donor Coordination.**

Enhanced agricultural productivity and reduced rural poverty is an integral part of Government's national development strategy as highlighted in the PRSP. The Agricultural Business Investment Project complements other donor supported projects, including the USAID Agricultural Business Investment project (BAMEX) and the International Finance Corporation SME Solutions Center. The Agricultural Business Investment Project catalyzes and scales up the activities of other donors in this area. Given the size of MCC support and speed of disbursement, the experience gained from the Agricultural Business Investment Project will help shape and consolidate other donor support.

### **5. Coordination with U.S. Agency for International Development.**

The Agricultural Business Investment Project Activities are fully consistent with USAID's program in Madagascar. The current USAID agricultural and trade program, which was initiated in 2004, addresses market and business development through the introduction of more productive technologies, creation of linkages between producers, agribusinesses, and external markets, and improvements in macroeconomic and trade policies to encourage investments and exports. These USAID activities lay a solid foundation for the Agricultural Business Investment Project Activities which will scale up both the geographic coverage and commercial services to be offered.

### **6. Sustainability.**

Beyond the Compact Term, the services provided by the ABCs to targeted clients in the agribusiness community in the Zones should be available through local and regional private sector entities. The Agricultural Business Investment Project will enhance the technical and management capacities of micro, small, and medium sized companies and agricultural producers by providing information and resources to the private sector to take advantage of investment opportunities. At the same time, the public sector will be able to identify further activities or investment that will strengthen such opportunities. Sustainability will result from the profitable use of such information and resulting increased investment. After the Compact Term, these enterprises should be both successful models and providers of services similar to those to be offered by the ABCs. While the ABCs may not continue indefinitely, to the extent they are continued after the Compact Term, ABCs will be able to support their operations through fee-based or subscription services by implementing a plan in which required participation by the private sector will increase progressively. Additional strategies by the Government include producer check-off programs to fund a portion of the operations. A stronger presence of the

Ministry of Agriculture, Livestock and Fisheries in the Zones will continue to provide services to farmers and MSMEs.

**7. Policy and Legal Reform.**

It is not expected that there are specific policy and legal reforms required to support the Agricultural Business Investment Project. The Agricultural Business Investment Project is consistent with the overall Malagasy National Agricultural Master Plan for moving subsistence farming to market driven agriculture.

**8. Proposals.**

MCA-Madagascar will develop, subject to MCC approval, a process for consideration of solicited and unsolicited proposals. With respect to solicited proposals, the evaluation process will include, consistent as appropriate with the Procurement Guidelines, the issuance of a published request for proposals with specific identified evaluation criteria and peer reviewers. MCA-Madagascar may receive unsolicited proposals for the enhancement of the environment for agribusiness investment in the Zones. These unsolicited proposals will be evaluated for their relevance in contributing to the attainment of the Agricultural Business Investment Objective and the qualifications of the applicants together with the availability of Agricultural Business Investment Project resources and MCC Funding in connection therewith.