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March 25, 2021

**Statement by Ms. Levonian, Mr. O'Brolchain, and Ms. Smith on Republic of Madagascar (Preliminary)**
**Executive Board Meeting**
**March 29, 2021**

We thank staff for their very comprehensive report, and Mr. Andrianarivelo, Mr. Nguema-Affane, and Mrs. Raoilisoa Andrianometiana for their informative Buff statement. The pandemic continues to take a toll on the Republic of Madagascar. Despite receiving two RCF disbursements in 2020, which have also catalyzed donor support, the authorities continue to face balance of payment challenges and need support for their ambitious reform agenda. **In light of this, as well as their demonstrated commitment under previous IMF programs, we support Madagascar's request for a new Extended Credit Facility (ECF) program.**

**Getting back on track toward sustained inclusive growth will require a balanced and well-coordinated policy mix.** In the context of the ongoing crisis, and given the need to maintain social support, the proposed program rightly emphasizes revenue mobilization, improved quality of spending, stronger financial inclusion, and upgraded functioning of the foreign exchange market. We also welcome work to improve public sector operations, including the public utility company's financial recovery plan and arrears repayment strategy.

**We agree with staff that initial budgetary projections for 2021 may have been too optimistic.** Given the high degree of uncertainty surrounding the near-term outlook, and with risks tilted to the downside, we welcome flexibility in the program and are pleased that it includes contingency measures. We are concerned by the persistent under-execution of social spending and urge authorities to ensure this is rectified going forward. If further spending adjustments are needed in 2021, we call for the authorities to protect social spending and reduce non-priority expenditure. The authorities should also work to improve operational efficiency and leverage digitalization to help address capacity limitations.

We strongly encourage the authorities to continue to utilize grants and concessional loans for the financing of its scaled-up investment plans. This will help keep debt on a sustainable path. *Could staff provide an update on the status of their conversations with the World Bank and other multilateral donors regarding financing assurances for 2021 and beyond?*

**A commitment to transparency and effective governance will be critical for a successful and credible reform agenda.** We welcome the authorities' Plan Emergence Madagascar (PEM) and its cross-cutting social, economic, and environmental pillars, with governance as a priority**.** Effective enforcement of the new anti-corruption legal framework and strengthened PFM will also play important roles in enhancing credibility. We are pleased to see that progress has been made on the disclosure of COVID-19 related spending and encourage the authorities to continue to action the remaining items they have committed to. *Could staff provide an update on the progress of governance commitments made under the two RCF disbursements in 2020?*

**We support the authorities' multi-pronged agenda to enhance financial sector stability and development.** We note positively the measures to support the deepening of financial markets, improve the central bank's autonomy and efficiency, as well as strengthen supervision, risk-based prudential regulations, anti-money laundering, and combating the financing of terrorism (AML/CFT). The authorities are also to be commended for their work to promote financial literacy and inclusion, as well as digital payments. As digital platforms increase in usage, we encourage the authorities to ensure that mechanisms are in place to secure adequate surveillance and cyber security.

**Madagascar is highly vulnerable to external shocks including natural disasters, and we are pleased that building resilience is a key component of its reform agenda.** We welcome the National Management Strategy for Risks and Disasters 2016-2030 (SNGRC) and its overarching objective of building ex-ante resilience to natural disasters. We are also happy that authorities have made disaster risk management a pillar of the PEM and that mitigating climate risks is explicitly incorporated within the proposed ECF program. We encourage the authorities to continue with their proposed reforms and to avail of Fund support as needed.

**We take positive note that the initial budget law for 2021 features an increase in resources for education, health, water and sanitation, and population, social protection, and women empowerment.** *Can staff elaborate on the specific policies implemented to support and empower women?*