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March 25, 2021

Statement by Ms. Shortino, Ms. Senich, and Mr. Westphal on Republic of Madagascar (Preliminary)
Executive Board Meeting
March 29, 2021

We thank staff for this Extended Credit Facility (ECF) proposal, and Mr. Andrianarivelo, Mr. Nguema-Affane, and Mrs. Raoilisoa Andrianometiana for the helpful Buff statement. **We support the proposed 40-month ECF program, which we see as an appropriate tool to support Madagascar's recovery from the pandemic, anchor reform implementation, and catalyze aid commitments.** We welcome the authorities' decision to seek an upper credit tranche program.

We underscore the usefulness of contingency planning and policy flexibility given continued economic uncertainty. We appreciate that staff have discussed contingencies with the authorities and note that the macro framework and fiscal program may need to be revised to reduce lower-priority investments if an adverse scenario materializes. *If the pandemic continues longer than expected, how will staff adjust the program to ensure that the authorities continue to make progress on their reform objectives?*

We appreciate that the authorities are now publishing some data on public spending, including from the recent RCFs, and we echo staff's calls for more granularity in this data to promote transparency and limit opportunities for corruption. While we recognize that money is fungible, we agree with staff that differentiating between COVID-related and non-COVID spending would help to provide transparency about the adequacy of the social safety net. We encourage the authorities to continue publishing detailed information on how they are spending IFI and donor funds and to centralize the COVID-19 spending data across government agencies. We are concerned with the draft legislation that limits the power of the anti-corruption court system. We emphasize the urgent need for the adherence to international standards to combat state graft.

To that end, we are very concerned about the lack of prior actions in the program design – particularly on governance. We call on staff to incorporate relevant governance conditionality during the remainder of this program. In general, we would expect future UCT programs – particularly ones with front-loaded disbursements and in cases where there is a lackluster history of governance reforms – to use strong prior actions to demonstrate the member's commitment to reforms. *Could staff explain their rationale for not including any governance-related prior actions?*

The authorities should prioritize social spending to address acute social needs, including 1.3 million individuals who are currently food insecure. The government's under-execution of spending on education, health, water sanitation, and the social safety net has exacerbated the pandemic's impact on the poor and held back the Malagasy economy. We emphasize the importance of reducing non-priority fiscal spending on JIRAMA, the wage bill, and fuel subsidies to free up fiscal space for social spending, infrastructure, and development needs. We were surprised that the entire budget increase for the four ministries focused on social policy is allocated to hiring new staff. *Can staff comment whether recent hires of teachers and health care workers under the wage bill were temporary or permanent?* We note the structural benchmark to increase number of beneficiaries of cash transfer program to 540,000. Given the authorities' consistent underperformance on social spending, we would encourage the establishment of intermediate targets to demonstrate that this goal remains on track.

We agree with staff's assessment that reversals in SOE reforms are a risk and would have a significant negative impact on the economy and the state's budget. Given this assessment, we were surprised that there are no structural benchmarks on SOE governance. *Can staff provide any insights about their rationale for not including SOE governance in the program's conditionality?*

We note Madagascar's high vulnerability to climate disasters, and we appreciate staff efforts to include resiliency to climate-related shocks in the program. Further, we support the authorities' efforts in the Plan Emergence Madagascar to build disaster mitigation frameworks to support long-term resiliency to climate risks. Staff efforts to assess climate-related fiscal risks and evaluate resources needed for mitigation plans will help to catalyze additional financing and shape Madagascar's long-term resilience to climate change. We would welcome joint efforts with the World Bank on this front.