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FOR  
AGENDA

EBS/82/103  
Supplement 1

CONFIDENTIAL

July 2, 1982

To: Members of the Executive Board

From: The Secretary

Subject: Madagascar - Staff Report for the 1982 Article IV  
Consultation and Request for Stand-By Arrangement

The attached supplement to the staff report for the 1982 Article IV consultation with Madagascar and its request for a stand-by arrangement (EBS/82/103, 6/11/82, and Correction 1, 7/2/82) has been prepared on the basis of additional information. A draft decision on the request for a stand-by arrangement appears on page 3.

This subject, together with a request expected to be received from Madagascar for a purchase under the compensatory financing facility (EBS/82/109, 6/21/82), has been tentatively scheduled for discussion on Friday, July 9, 1982.

Att: (1)



INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF MADAGASCAR

Staff Report for the 1982 Article IV Consultation  
Request for Stand-by Arrangement  
Supplementary Information and Proposed Decision

Prepared by the African Department and the Exchange  
and Trade Relations Department

(In consultation with the Fiscal Affairs, Legal, and  
Treasurer's Departments)

Approved by O.B. Makalou and S. Kanesa-Thasan

July 1, 1982

The purpose of this Supplement is to provide to the Executive Board some supplementary information on the recent Aid Coordination Conference for Madagascar and to submit a draft decision for adoption by the Executive Directors.

Aid Coordination Conference

As indicated in the Secretary's cover note to EBS/82/103 dated June 11, 1982 an Aid Coordination Conference for Madagascar was held in Paris on June 17-18, 1982 to mobilize financial support for Madagascar so as to cover the remaining gap in the financing of the 1982 balance of payments as forecast in Table 4 of EBS/82/103. The conference was chaired by Mr. Wapenhans, Vice President, East African Region, IBRD, and was attended by representatives from Algeria, France, the Federal Republic of Germany, Italy, Japan, Switzerland, the United Kingdom, the United States, the EEC, and several international organizations. Belgium, Canada, Libya, and Spain were represented as observers. The Malagasy delegation was headed by the Minister of Finance, Mr. P. Rakotomavo and included, among others, the Minister of Foreign Affairs, the Minister of Industry and Commerce, the Governor of the Central Bank, and the Director General of Planning. Mr. Nana-Sinkam, Executive Director for Madagascar, attended the meeting and the Fund staff representatives were Mr. Kratz and Mr. Goldsbrough (both AFR).

Representatives of the donor countries had at their disposal Madagascar's request for a stand-by arrangement (EBS/82/103), as well as documentation prepared by the Malagasy authorities and the World Bank. In addition, there were oral presentations by the Chairman, the Minister of Finance, and by representatives from the Fund and the World Bank. In their statements, the donor countries expressed satisfaction that Madagascar had taken a number of substantial measures to begin the process of making

lasting adjustments in the country's economy. To support these efforts, concrete offers of additional assistance for 1982 were received in the amount of SDR 63.3 million. France, Japan, and the United States were the major contributors: details are given in the attached table. However, the net impact on Madagascar's balance of payments will be somewhat less than SDR 63.3 million, since the Japanese and U.S. contributions are in the form of high-quality rice, which will replace lower-quality, lower-priced commercial rice imports. This replacement will increase Madagascar's import bill, in statistical terms, by an estimated SDR 8.4 million, so that the overall net contribution to the financing gap of SDR 54.2 million is actually SDR 54.9 million.

In addition to the concrete offers of assistance, several other donors indicated that they would probably be able to make contributions in the near future. Switzerland is considering making a balance of payments loan of Sw F 5 million (SDR 2.2 million) for 1982, and a similar amount for 1983. Germany indicated that an additional loan of DM 5 million (SDR 1.8 million) in the form of commodity aid will be made available shortly, although it may not all be drawn down in 1982. In addition, Madagascar is likely to receive some payments from STABEX later in the year, while Spain and the United Kingdom will consider making further emergency food aid.

Although no specific commitments were made, the donors also indicated a willingness to continue financial support for Madagascar's adjustment efforts in the coming years, provided that the Government continue its efforts toward internal and external financial equilibrium. The donor countries also supported the idea of establishing a consultative group for Madagascar so as to provide an appropriate forum for coordinating continued assistance for Madagascar's medium-term development program. The first meeting of this group could take place in the first half of 1983, but would depend upon further progress in the elaboration of Madagascar's medium-term economic policies.

Representatives of some of the creditor countries indicated informally their countries' willingness to discuss debt rescheduling for the period beyond June 1982, and a tentative date (July 12 and 13, 1982) was set for such discussions in the framework of the Paris Club. There have also been contacts between the Malagasy authorities and representatives of various banks with a view to rescheduling of liabilities owed to these banks.

In light of the foregoing there is reasonable ground for believing that the balance of payments gap projected in Table 4 of EBS/82/103 will be closed.

Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

(1) The Government of Madagascar has requested a stand-by arrangement for the period from July \_\_\_, 1982 to July \_\_\_, 1983 for an amount equivalent to SDR 51.0 million.

(2) The Fund approves the stand-by arrangement attached to EBS/82/103 and waives the limitation in Article V, Section 3(b)(iii).

Table 1. Madagascar: Contributions to Financing the Balance of Payments Gap for 1982

Country	Amount (SDR millions)	Description
France	30.0	A loan of F 230 million for the purchase of raw materials, spare parts, pharmaceuticals, etc. (15-year loan with a 5-year grace period). The rate of interest to be charged is still under negotiation; since it will be subsidized, it will be below market rates.
Japan	17.5	Long-term loan for the purchase of 50,000 tons of rice (30-year loan with a 10-year grace period; interest of 2 per cent for grace period, 3 per cent thereafter). This is additional to the 45,000 tons provided earlier and already included in the 1982 balance of payments forecast.
United States	10.5	Grant and loan for the purchase of 30,000 tons of rice. This is in addition to 10,000 tons already included in the 1982 balance of payments forecast. Of the 40,000 tons of rice to be provided in 1982, 20,000 tons will be in form of a grant and 20,000 tons in form of a concessionary loan repayable over 40 years with a grace period of 10 years at an interest rate still to be negotiated in the range of 2 to 4 per cent.
Italy	4.4	A US\$5 million grant of food aid.
Algeria	<u>0.9</u>	A US\$1 million grant of emergency supplies to provide relief from cyclone damage.
Total	63.3	