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**Statement by Mr. Barro Chambrier on Madagascar  
Executive Board Meeting 00/129  
December 21, 2000**

In support of their request for the confirmation of the decision point, and interim assistance under the enhanced HIPC Initiative, my Malagasy authorities are presenting today their I-PRSP. They would also like to point out that they have completed discussions with the staff and have reached agreement on a comprehensive program of economic and structural adjustment which is consistent with the I-PRSP, and for which they intend to ask for Fund support under a new three-year PRGF, soon. This program builds on the progress achieved under past arrangements which have resulted in significant improvements in economic and financial conditions, including the strengthening of public finance, market liberalization, restructuring of the banking system and the exchange and trade system, and a comprehensive program of privatization. Overall, since 1996, Madagascar has established a good track record of policy implementation, and the reforms undertaken have been the basis for sustained growth within which poverty reduction can be achieved.

**Poverty Issues and I-PRSP**

The preparation of the I-PRSP which was put under a specially formed technical secretariat has benefited from extensive discussions with the private sector, representatives of donors, government officials and a large number of civic organizations. The I-PRSP has also benefited from previous work done on poverty-related issues and sectoral strategies namely in the education and health sectors as well as rural development. In this regard, the I-PRSP has done an excellent job of analyzing the causes of poverty and in recommending specific actions and setting specific time frames for the implementation of a number of measures. As noted during the last Board discussions, poverty is a very severe problem in Madagascar, where about 70 percent of the population live below the poverty line, and the measures envisaged in the I-PRSP are aimed at relieving the hardships of the population, especially those living in rural areas.

Recognizing the strong link between growth and poverty reduction, the I-PRSP places special emphasis on measures that are aimed at further reducing structural constraints, and at improving economic growth. They view the achievement of an annual real rate of economic growth above 6 percent per annum as essential to achieve the poverty reduction objectives. While measures in the program are directly targeted at improving certain social sectors, the program also addresses factors that still hinder economic development. In this context, the process of structural reforms, including the privatization program already started, will be accelerated, and measures are being taken to address weaknesses in governance, transparency and accountability in the management of public

resources. Thus, the authorities will continue their efforts to strengthen budgetary accounting and the control system as well as improving transparency in the use of public resources. The range of budgetary reform measures envisaged are outlined in Box 6 of EBS/00/251, and will be implemented steadfastly, some with external technical assistance. As regards the sources of growth, it is expected to come mainly from tourism, mining, agriculture and light manufacturing.

The decentralization process which will take place over the next 18 months should also help to improve the delivery of basic services to the rural area, as it will contribute to enhance consultation at the local level and help to deliver services more rapidly. The government will transfer responsibility for the delivery of such services as local roads, primary health and education to the provinces, as well as some responsibility for justice and police. To ensure control over expenses at the provincial level, a transfer of competence is envisaged, and the authorities will be putting in place a better budget oversight system, and will define clearly the decision-making power and administrative limits of the provinces.

The objectives of the authorities as outlined in the I-PRSP is to ensure that improved economic conditions translate into tangible results in terms of poverty reduction, job creation and a significant improvement in the economic welfare of the population. In this regard the resources that become available through the HIPC Initiative will be used mainly for education, health, rural development and basic infrastructure. Thus, the government intends to hire additional teachers, more health care providers and will use some of the resources for acquiring pedagogical material and medicine. Tables 5 and 6 of the Decision Point document give a detailed breakdown of the planned use of HIPC resources for the next three years. A Supplementary Budget will be prepared and submitted to the National Assembly. This budget will also be submitted to civil society organizations. In 2002 and beyond, the additional resources will be fully integrated in the budget and semi-annual reporting related to poverty reductions will be introduced to track the use of the HIPC resources.

My authorities are already working on the preparation of the full PRSP. Given the extensive work already done in the preparation of the I-PRSP, and the ongoing studies being done by international institutions and others, and the active consultation underway with social partners, the authorities are of the view that they can have the full PRSP ready by the middle of next year, and the document will also address the concerns raised by the staff. However, in the preparation of such a document, quality rather than time will be the guiding principle, and the authorities will only submit the document once they are fully satisfied that it meets the required criteria.

### **Decision Point and Interim Relief**

The updated DSA confirms that the debt burden of Madagascar will remain unsustainable, even after full use of traditional debt relief mechanisms, and will continue to constrain the efforts of the authorities to improve social indicators. With assistance under the enhanced HIPC Initiative, the debt-to-export ratio will fall to 136 percent by 2003 and below

100 percent after 2010. The debt service-to-export ratio and debt service-to-revenue will fall over that period, allowing for an increase in social expenditure, as outlined in the I-PRSP.

The authorities have also reached agreement with the staff on key policy measures linked to the floating completion point. These are outlined in Box 8 of EBS/00/251. They are fully consistent with the objectives of poverty reduction and those of the PRGF which will be submitted to the Board soon. The policy measures focus on achieving macroeconomic conditions which are considered basic to the success of the poverty reduction strategy. Measures in the area of governance and institutional reform are also part of the list of completion point triggers, as they are viewed as important to further enhance transparency. Specific measures to ensure the delivery of services to the poor are part of the set of triggers. Actions in many of these areas are already underway, but will be strengthened along the line specified in the I-PRSP so as to enable Madagascar to meet the criteria under the completion point.

In conclusion, I would like to reiterate the commitment of my Malagasy authorities to continue the adjustment process, and to indicate their appreciation for the invaluable assistance provided by the Fund. The assistance that will come from the HIPC Initiative will be of critical importance to Madagascar's poverty reduction efforts. However, the authorities would like to point out that their own efforts will need to be accompanied by donor efforts to deliver the required technical assistance and the necessary resources in a timely manner.