

**AFRICAN DEVELOPMENT FUND**



**AFRICAN DEVELOPMENT BANK**



**MADAGASCAR - HIPC APPROVAL DOCUMENT**  
**DECISION POINT UNDER THE ENHANCED FRAMEWORK\***

**NB : This document contains errata or corrigenda (see Annexes)**

**HIPC APPROVAL DOCUMENT FOR MADAGASCAR:  
Decision Point under the Enhanced Framework**

**1. INTRODUCTION**

1.1 The Boards of Directors approved the Bank Group's participation in the enhanced HIPC Initiative, on July 6, 2000. During this meeting, Management's proposal for the delivery modalities and financing arrangements were also approved. Accordingly, the Bank Group would provide its debt relief by releasing eligible countries from up to 80 percent of their annual debt service obligations until the total debt relief is delivered. Debt service delivery would commence at the decision point, with no more than 40 percent of HIPC assistance being provided during the interim period, viz., between the decision and completion points. Whenever possible, total debt relief will be provided within 15 years.

1.2 During their deliberations, the Boards of Directors took note of an earlier meeting of the Deputies of the African Development Fund on June 30, 2000 in Paris. At this meeting the Deputies endorsed the Bank Group's proposed delivery modalities and further agreed that the Bank Group has made the maximum effort in generating internal resources for the HIPC Initiative. The Deputies gave assurance to the Bank Group that they would meet the remaining financing gap to cover the full cost of the Bank's participation in the Initiative.

1.3 In January 2001, Madagascar reached its decision point and the Boards of the IMF and World Bank approved US\$ 814 million worth of debt relief in end-1999 net present value (NPV) terms under the enhanced HIPC Framework. This document invites the Boards to note the justifications for Madagascar's qualification for HIPC assistance, and approve the proposed plan to finance the Bank Group's share of Madagascar's costs. Section 2 of this document summarises details of Madagascar's qualification, while the total debt relief is disaggregated in Section 3 to illustrate how the Bank Group's share of the HIPC costs have been derived. The Bank Group's operations are reviewed in Section 4, with particular emphasis on activities related to the Poverty Reduction Strategy Papers (PRSPs). Section 5 presents details of the proposed delivery modality. The proposed financing plan is presented in Section 6. Recommendations for the Boards' consideration are contained in Section 7.

**2. HIPC QUALIFICATION**

Madagascar qualified for US\$ 814 million worth of debt relief assistance, equivalent to 39.5 percent reduction in the country's outstanding stock of debt at end-1999 after full use of traditional debt relief mechanisms. The country reached its decision point in January 2001, and is expected to reach its completion point by 2003 by fulfilling the following conditions:

- Preparation and implementation of a full PRSP for at least one year;
- Ensuring the use of budgetary savings from debt service relief in accordance with criteria forth at the decision point;
- Maintaining a stable macroeconomic environment as evidenced by satisfactory performance under a program supported by the IMF-supervised Poverty Reduction and Growth Facility (PRGF) arrangement;

- Improving financial monitoring and control as follows:
  - (i) Strengthening control systems through, among others, adoption of procedures and internal control systems that conform to international technical standards;
  - (ii) Designing a monitoring system for the budgetary cycle, and implementing this in at least six ministries, including the Ministries of Basic Education and Health;
  - (iii) Improving centralization procedures and consolidation of all balances of the Principal Treasurers by the ACCT through the establishment of a consolidation and audit unit starting in 2001;
  - (iv) Preparing the 1999 budgetary execution law in 2001, and the 2000 budgetary execution law before end-June 2002.
  
- Preparing biannual reports on education and health sector activities at the central and decentralized levels, including budgetary allocation and expenditure execution;
- Implementing a transparent system of granting licenses in the mining, forestry and fishing sectors, and publishing the list biannually;
- Expanding teacher availability in the rural areas by:
  - (i) formalizing and implementing new financial incentives for teachers to serve in rural public primary schools;
  - (ii) recruiting at least 3,5000 new teachers for public primary schools from 2000;
  
- Rendering operational the generic essential drug supply system of district pharmacies as measured by an increase in the annual gross revenues of the existing central purchasing pharmacy;
- Covering 100 percent of current road maintenance needs through the Road Maintenance Fund, of which at least 10 percent are used for rural roads.

A copy of the relevant HIPC decision point document is annexed to this report.

### 3. HIPC COSTS

Bilateral creditors will account for US\$ 457 million ( 56 percent) Madagascar's debt relief while multilateral creditors will deliver the remaining US\$ 357 million ( 44 percent) The Bank Group's share of debt relief will amount to US\$ 59 million in 1999 NPV terms. Table 1 provides a breakdown of Madagascar's total debt relief in NPV terms.

**Table 1. Breakdown of Madagascar's HIPC Costs**

	US\$ million ( End-1999 NPV)
<b>Total HIPC Debt Relief</b>	814
Bilateral Creditors	457
Multilateral Creditors	357
<i>Of which:</i>	
<b><i>African Development Bank Group</i></b>	<b>59</b>
<i>World Bank</i>	252
<i>IMF</i>	22

#### **4. BANK GROUP INVOLVEMENT IN THE PRSP**

4.1 The Interim PRSP (I-PRSP) for Madagascar builds on a comprehensive anti-poverty strategy, “Strategie Nationale de Lutte Contre la Pauvrete” (SNLCP), developed by the government in 1999 with technical assistance from the UNDP. The PRSP process was launched in September 2000, at a workshop attended by participants from the government, NGOs, donors and the private sector. The I-PRSP was finalized after consultations on the draft with civil society organizations, and the donor community. It seeks to implement a strategy for governance and institutional reforms, and policies to attain higher and more sustainable rates of economic growth that reach the poor, especially in the rural areas; improved delivery of basic social services in sectors that are key to poverty reduction (education, health, nutrition, and basic infrastructure). It also contains measures to reduce the incidence of malaria and contain the spread of HIV/AIDS. Although the Bank Group was not directly involved in the preparation of the I-PRSP, its Country Strategy Paper for Madagascar took into account the Government’s SNLCP and the I-PRSP.

4.2 The Bank Group’s Country Strategy Paper (CSP) for Madagascar is based on consultations with the government, representatives of the National Assembly, civil society including NGOs, and private and public sector institutions, and major donor agencies. The Bank Group’s medium-term assistance strategy (1999-2001) aims at contributing to government efforts to create the necessary conditions for sustainable growth and development, and poverty reduction. Bank Group operations are targeted at the following areas: improving agricultural productivity, enhancing access to public services, education and health facilities, rehabilitation of infrastructure damaged by cyclones, and cricket control. Other areas to be addressed by the Bank Group assistance strategy include: institutional development, employment creation, and rural development.

4.3 The government of Madagascar is embarking on the preparation of a full PRSP to fulfil the condition for reaching the completion point under the enhanced HIPC framework. The full PRSP will be based on regional consultations and inputs from stakeholders. The Bank Group plans to be actively involved in the process and would assist in the development of a co-ordinated approach for sustainable economic growth and poverty reduction in Madagascar.

#### **5. PROPOSED DELIVERY MODALITY**

5.1 As Madagascar has reached its decision point, it is proposed that the Bank Group makes a commitment to provide interim debt relief between the decision and completion points, with effect from January 2001. Interim relief will not exceed 40 percent of the total NPV debt relief, and is expected to be delivered between 2001 and 2003. The Bank Group’s debt relief would be provided by releasing Madagascar from up to 80 percent of its debt service obligations to the Bank Group each year, until the entire amount of US\$ 59.05 million is delivered. The conditions that would trigger Madagascar’s floating completion point are outlined in Section 2. When the completion point is reached, the Bank Group will enter into an irrevocable debt relief commitment.

## Legal Aspects of Debt Relief Operation

5.2 Debt relief for Madagascar is to be provided, under the enhanced framework of the HIPC Debt Initiative, through the mechanism of debt service relief, in accordance with the terms described in the preceding paragraphs. These terms will be implemented by a Debt Relief Agreement between the Bank Group and the government of Madagascar; a HIPC Trust Fund Grant Agreement between the Bank Group, the International Development Association (IDA) and the government of Madagascar; and, the Contribution Agreement between the Bank Group and the IDA. The provision of debt relief, as described, is consistent with the rules of the African Development Bank and the African Development Fund.

## 6. PROPOSED FINANCING ARRANGEMENTS

The Bank Group's share of debt relief will be financed as follows:

	<i>Million US\$ end-1999 NPV</i>
Internal Resources	<b>11.81</b>
European Commission pledge	<b>23.62</b>
Balance with HIPC Trust Fund	<b>23.62</b>
<b>TOTAL</b>	<b>59.05</b>

## 7. RECOMMENDATIONS

The Boards are invited to:

1. Note the justifications for Madagascar's qualification for HIPC assistance at its decision point, under the enhanced framework; and
2. Approve the plan to finance the Bank Group's share of HIPC debt relief, in accordance with the arrangements presented in Section 6.

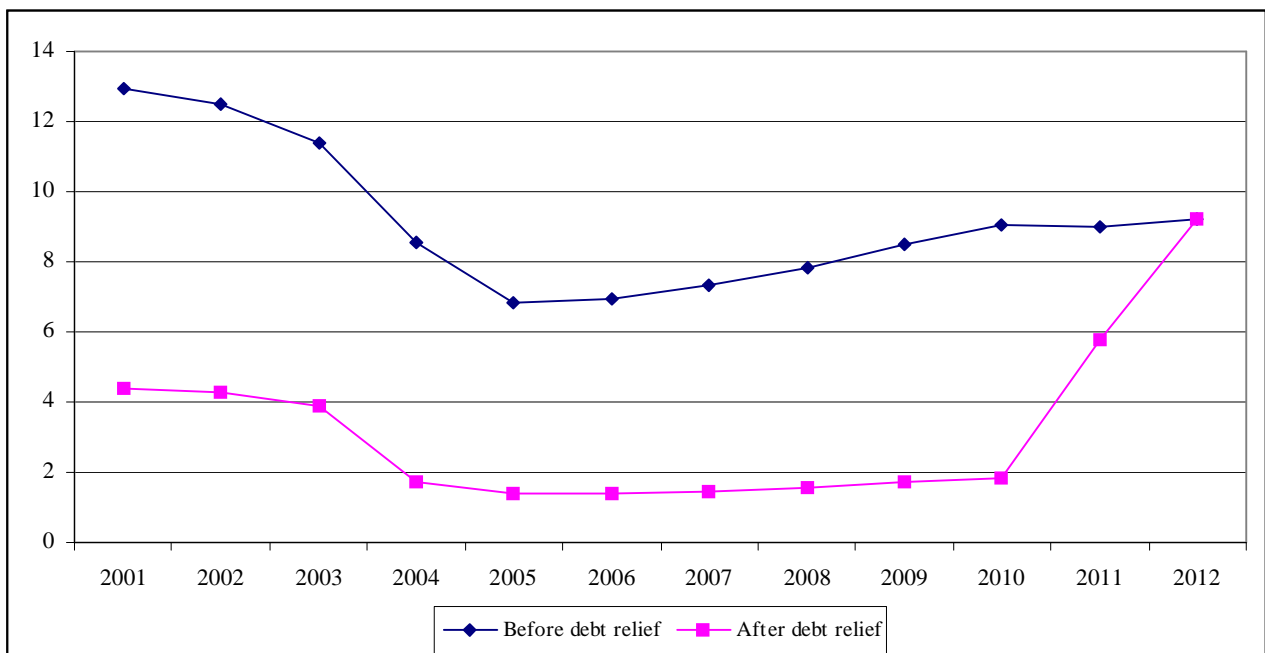
**IMF/ World Bank HIPC Document  
for MADAGASCAR**

# Annex

**MADAGASCAR - HIPC APPROVAL DOCUMENT**  
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## ADDENDUM

### Impact of Debt Relief on Madagascar's Bank Group Debt Service Profile (in million US dollars)



**African Development Bank  
HIPC Debt Relief Schedule  
(in US dollars)**

<b>Madagascar</b>	<b>TOTAL ADB</b>	<b>TOTAL Debt Relief</b>
2001	5,165,569	8,522,142
2002	4,762,654	8,248,950
2003	3,780,406	7,498,621
2004	1,910,593	6,827,059
2005	109,777	5,444,518
2006	0	5,551,439
2007	0	5,849,381
2008	0	6,271,289
2009	0	6,784,332
2010	0	7,224,039
2011	0	3,235,780
	<b>15,728,999</b>	<b>71,457,550</b>

**Summary**

Total Nominal Relief	US\$ 71.46 mn
<b>of which ADB</b>	<b>US\$ 15.73 mn</b>
of which ADF	US\$ 55.29 mn
of which NTF	US\$ 0.44 mn
Total NPV Relief	US\$ 59.10 mn*
Duration	11 years

\* There is a marginal change in the total NPV debt relief after reconciliation with the World Bank

**African Development Fund  
HIPC Debt Relief Schedule  
(in US dollars)**

<b>Madagascar</b>	<b>TOTAL ADF</b>	<b>TOTAL Debt Relief</b>
2001	3,120,079	8,522,142
2002	3,366,647	8,248,950
2003	3,709,100	7,498,621
2004	4,905,684	6,827,059
2005	5,324,261	5,444,518
2006	5,541,252	5,551,439
2007	5,839,487	5,849,381
2008	6,261,682	6,271,289
2009	6,775,024	6,784,332
2010	7,215,024	7,224,039
2011	3,231,377	3,235,780
	<b>55,289,617</b>	<b>71,457,550</b>

**Summary**

Total Nominal Relief	US\$ 71.46 mn
of which ADB	US\$ 15.73 mn
<b>of which ADF</b>	<b>US\$ 55.29 mn</b>
of which NTF	US\$ 0.44 mn
Total NPV Relief	US\$ 59.10 mn*
Duration	11 years

\* There is a marginal change in the total NPV debt relief after reconciliation with the World Bank

**Nigeria Trust Fund  
HIPC Debt Relief Schedule  
(in US dollars)**

**Madagascar**

	<b>TOTAL NTF</b>	<b>TOTAL Debt Relief</b>
2001	236,493	8,522,142
2002	119,649	8,248,950
2003	9,115	7,498,621
2004	10,783	6,827,059
2005	10,480	5,444,518
2006	10,187	5,551,439
2007	9,894	5,849,381
2008	9,607	6,271,289
2009	9,308	6,784,332
2010	9,014	7,224,039
2011	4,403	3,235,780
	<b>438,933</b>	<b>71,457,550</b>

**Summary**

Total Nominal Relief	US\$ 71.46 mn
of which ADB	US\$ 15.73 mn
of which ADF	US\$ 55.29 mn
<b>of which NTF</b>	<b>US\$ 0.44 mn</b>
Total NPV Relief	US\$ 59.10 mn*
Duration	11 years

\* There is a marginal change in the total NPV debt relief after reconciliation with the World Bank



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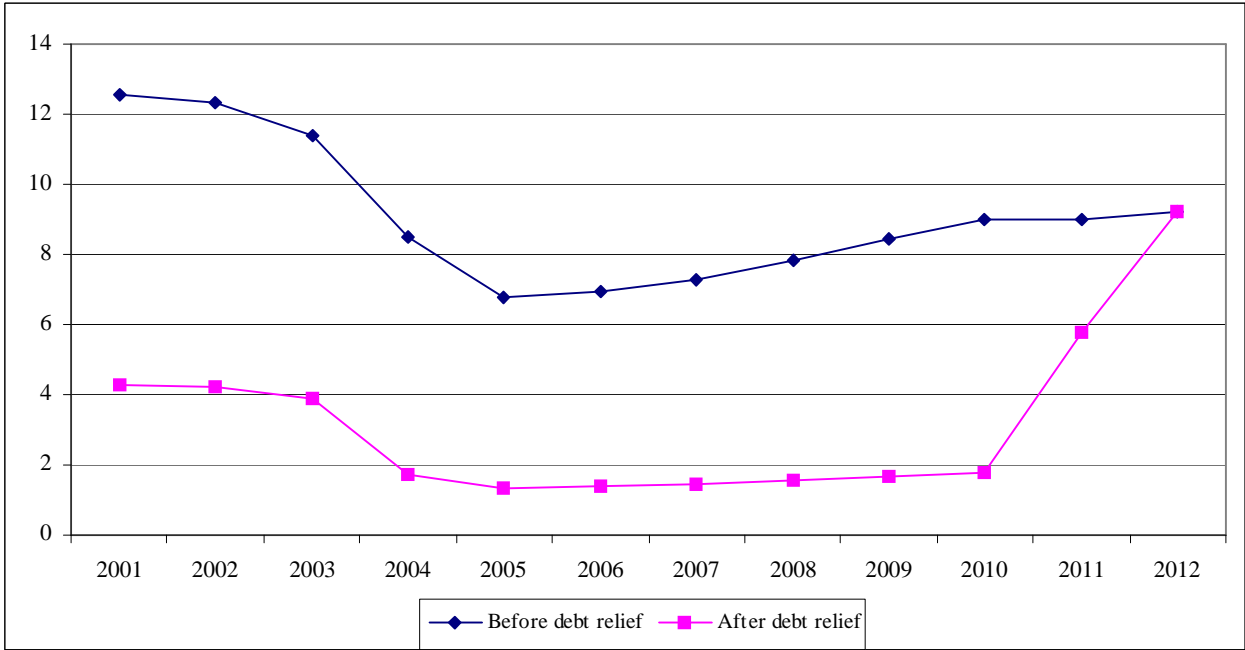
## CORRIGENDUM

5.1 As Madagascar has reached its decision point, it is proposed that the Bank Group makes a commitment to provide interim debt relief between the decision and completion points, with effect from **December 2000**. Interim relief will not exceed 40 percent of the total NPV debt relief, and is expected to be delivered between 2000 and 2003. The Bank Group's debt relief would be provided by releasing Madagascar from up to 80 percent of its debt service obligations to the Bank Group each year, until the entire amount of US\$ 59.05 million is delivered. **The balance of debt relief will only be provided after Madagascar has reached its completion point following Board approval.** The conditions that would trigger Madagascar's floating completion point are outlined in Section 2. When the completion point is reached, the Bank Group will enter into an irrevocable debt relief commitment.



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**Impact of Debt Relief on Madagascar's Bank Group Debt Service Profile**  
(in million US dollars)



**African Development Bank  
HIPC Debt Relief Schedule  
(in US\$ millions)**

<b>Madagascar</b>	<b>TOTAL ADB</b>	<b>TOTAL ADB and ADF</b>
2001	5.1656	8.2856
2002	4.7627	8.1293
2003	3.7804	7.4895
2004	1.9106	6.8163
2005	0.1098	5.4340
2006	0.0000	5.5413
2007	0.0000	5.8395
2008	0.0000	6.2617
2009	0.0000	6.7750
2010	0.0000	7.2150
2011	0.0000	3.2314
	<b>15.7291</b>	<b>71.0186</b>

**Summary**

Total Nominal Relief	US\$ 71.02 mn
<b>of which ADB</b>	<b>US\$ 15.73 mn</b>
of which ADF	US\$ 55.29 mn
Total NPV Relief	US\$ 59.10 mn*
Duration	11 years

\* There is a marginal change in the total NPV debt relief after reconciliation with the World Bank

**African Development Fund  
HIPC Debt Relief Schedule  
(in US\$ millions)**

<b>Madagascar</b>	<b>TOTAL ADF</b>	<b>TOTAL ADB and ADF</b>
2001	3.1201	8.2856
2002	3.3666	8.1293
2003	3.7091	7.4895
2004	4.9057	6.8163
2005	5.3243	5.4340
2006	5.5413	5.5413
2007	5.8395	5.8395
2008	6.2617	6.2617
2009	6.7750	6.7750
2010	7.2150	7.2150
2011	3.2314	3.2314
	<b>55.2897</b>	<b>71.0186</b>

**Summary**

Total Nominal Relief	US\$ 71.02 mn
of which ADB	US\$ 15.73 mn
<b>of which ADF</b>	<b>US\$ 55.29 mn</b>
Total NPV Relief	US\$ 59.10 mn*
Duration	11 years

\* There is a marginal change in the total NPV debt relief after reconciliation with the World Bank