



**AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND**



**REPUBLIC OF MADAGASCAR
COUNTRY STRATEGY PAPER
2005-2009**

**COUNTRY OPERATIONS DEPARTMENT
NORTH, EAST AND SOUTH REGIONS**

AUGUST 2005

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Acronyms and abbreviations

ABEDA	:	Arab Bank for Economic Development in Africa
ADF	:	African Development Fund
AFD	:	French Development Agency
AGOA	:	African Growth and Opportunities Act
AIDS	:	Acquired Immuno-Deficiency Syndrome
ARPP	:	Annual Report on Portfolio Performance
ASYCUDA	:	Automatic System for Customs Data
BIANCO	:	Independent Anti-Corruption Office
CAPE	:	Corporate Recovery Steering Support Committee
CBM	:	Central Bank of Madagascar
CFAA	:	Country Financial Accountability Assessment
CFI	:	Court of First Instance
CNFPA	:	National Center for Administrative Training
COMESA	:	Common Market of East and Southern Africa
CPAR	:	Country Procurement Assessment Report
CPIA	:	Country Policy and Institutional Assessment
CPSR/CPAR	:	Steering and Monitoring Committee for the CPAR Recommendations
CSP	:	Country Strategy Paper
DGE	:	Directorate General of the Economy at the MEFB
DPR	:	Development Policy Review
ENA M	:	National School of Administration in Madagascar
ENMG	:	National School of Magistracy in Madagascar
ESS	:	Economic and Sector Studies
EU	:	European Union
FAO	:	Food and Agricultural Organization
FMG	:	Malagasy Franc
GDP	:	Gross Domestic Product
GRM	:	Government of the Republic of Madagascar
GUIDE	:	Single Window for Corporate Investment and Development
HIPCI	:	Heavily Indebted Poor Countries Initiative
HIV/AIDS/STI	:	Human Immuno-deficiency Virus/Acquired Immune Deficiency Syndrome / Sexually Transmitted Infections
IFAD	:	International Fund for Agricultural Development
ILO	:	International Labor Organization
IMF	:	International Monetary Fund
INSTAT	:	National Institute of Statistics
IOC	:	Indian Ocean Commission
MALF	:	Ministry of Agriculture, Livestock and Fisheries
MDG	:	Millennium Development Goal
MEFB	:	Ministry of the Economy, Finance and the Budget
MFA	:	Multi-Fiber Arrangement
MTEF	:	Medium-Term Expenditure Framework
NEPAD	:	New Partnership for Africa's Development
NGO	:	Non-Governmental organization
NMP	:	National Maize Project

NTF	:	Nigeria Trust Fund
OPEC	:	Organization of Petroleum Exporting Countries
PER	:	Public Expenditure Review
PPP	:	Public-Private Partnership
PRGF	:	Poverty Reduction and Growth Facility
PRIBG	:	Good Governance Institutional Development Project
PROJER	:	Young Rural Entrepreneurs Project
PRSP	:	Poverty Reduction Strategy Paper
SDR	:	Special Drawing Right
SIGTAS	:	Standard Integrated Government Tax Administration System
STI	:	Sexually Transmitted Infection
TSA	:	Technical Secretariat for Adjustment
UA	:	Unit of Account
UNDP	:	United Nations Development Program
UNICEF	:	United Nations Children Fund
US	:	United States
USAID	:	United States Agency for International Development

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Currency equivalents
(April 2005)

Currency unit	=	Ariary (MGA)
UA 1	=	€1.1654
UA1	=	MGA 2894.63

Fiscal year
1 January to 31 December

Weights and Measures
Metric System

Executive Summary

I. Introduction

1. The aim of this report is to develop a 2005-2009 ADB Group results-based operations strategy for the Republic of Madagascar under ADF-X. Hence, it aims to define a results framework for the ADB Group strategy. Such a results framework identifies the long-term development objective of the Government of Madagascar that will be influenced by ADB Group operations, the medium-term impact and short-term results expected from implementation of the strategy, as well as the deliverables of the Bank for 2005-2009.

II. Country Context

2. After the sharp recession of 2002, during which the Gross Domestic Product (GDP) fell by about 12.7%, following the severe political crisis that rocked the country, Madagascar's economy bounced back with positive growth rates of 9.8% and 5.3% in 2003 and 2004 respectively. This remarkable economic recovery stems mainly from the excellent performance of the secondary and tertiary sectors. The secondary sector, which recorded an average annual growth rate of 10.1% in 2003-2004, was driven mainly by the buoyancy of free zone enterprises whose production boomed at an average annual rate of 51.8% over the last two years. As for the tertiary sector, which recorded an average annual growth of 8.5% for 2003-2004, its good performance was fueled by that of the construction and transport sectors.

3. Although there have been some difficult moments, as in 2004, Madagascar's macroeconomic policy over the past five years has generally remained geared towards the maintenance of a stable macroeconomic environment that boosts economic growth and contributes to poverty reduction. On the whole, Madagascar's budget policy appears to be in line with the macroeconomic stability objectives defined in its poverty reduction strategy.

4. The Government's macroeconomic reforms are supported by international financial institutions. In March 2001, the IMF approved a Poverty Reduction and Growth Facility (PRGF) of SDR 79 million. In March 2005, the IMF signed the sixth and last review of the PRGF-supported program and approved a disbursement of US\$ 17.2 million. In 2004, the World Bank approved a poverty reduction credit of US\$125 million, comprising a loan of US\$ 37 million and a grant of US\$ 88 million. Another poverty reduction credit for 2005 was approved in July 2005 for the sum of US\$80 million given as a loan. The European Union gave budget support of €35 million in 2004. A new budget assistance agreement for 2005-2007 has just been signed for the sum of €55 million. Discussions are underway between the Government and the IMF for the conclusion of a new PRGF-supported program.

5. The Government has just published a preliminary report to update its PRSP. According to this report, economic growth seems to be one of the major determinants of poverty in the country. The report also indicates that there is a strong correlation between Madagascar's economic situation and its poverty level, since periods of economic growth and stability coincide with periods of decline in the incidence of poverty. Apart from this link between growth and poverty, the poverty analysis of Madagascar has also revealed that poverty is essentially a rural phenomenon. Indeed, according to the above-mentioned report, 80% of the rural population is poor compared to only 54% of the urban population. In view of

this concentration of poverty in rural areas, the stakeholders in Madagascar want the Bank Group strategy under ADF IX, as proposed in this CSP, to target mainly concrete results in rural development.

III. National Development Agenda

6. To consolidate its poverty reduction efforts, the Authorities of Madagascar finalized its Poverty Reduction Strategy Paper (PRSP) in June 2003, through a participatory approach that involved stakeholders in the poverty reduction drive. This strategy identified three strategic thrusts that should guide poverty reduction efforts, namely to (i) restore the rule of law and good governance, (ii) stimulate and promote broad-based economic growth, and (iii) stimulate and promote human, material and enhanced social security systems.

7. In order to speed up poverty reduction, the Government of Madagascar has just prepared a new 2020 Vision Statement for Madagascar entitled “*Madagascar naturellement*”, and a new general Government policy for 2005. The Vision Statement focuses on rural development as the top priority for Madagascar in the years ahead. The specific objectives of the Vision include: (i) 100% increase in agricultural output in five (5) years, (ii) 100% increase in agricultural exports in five (5) years, (iii) 50% increase in industrial textile production in five (5) years, and 200% increase in ten (10) years, (iv) 50% increase in agro-industrial food production in five (5) years, and 150% Increase in ten (10) years, and (v) an increase in tourist turnover from 160,000 in 2003 to 400,000 in five (5) years and to 800,000 in ten (10) years. The Vision Statement was incorporated in the PRSP in June 2005.

IV. Bank Group Assistance Strategy

8. The ADF-X strategy will be based on: (i) the PRSP, the Vision Statement (*Madagascar, naturellement*) recently prepared by the Authorities ; (ii) the results of consultations with Malagasy stakeholders ; (iii) economic and sector studies (ESS) conducted by the Bank Group and other development partners; and (iv) lessons from a review of the Bank’s past performance. The conclusions of all this analytical work, as well as the selectivity in the choice of operations all underscore the need for the Bank Group to focus on poverty rate reduction as a key development goal of Madagascar that the Bank Group’s strategy should help to attain under ADF-X. To achieve this goal, the medium-term outcome sought by the Bank Group will be an increase in agricultural and fishery production to help increase farmers’ incomes.

9. As its contribution towards this medium-term outcome, the Bank intends to help the Government of Madagascar to improve the quality of rural infrastructure in order to boost agricultural and fish production in rural areas in the South, which is home to 39.7% of the country’s 12.2 million poor (Short-Term Outcome 1). The Bank Group deliverables that will contribute to the elimination of rural development constraints and the attainment of Outcome 1 are: (i) improvement of the quality of agricultural and fishery infrastructure; (ii) improvement of water supply and sanitation infrastructure; (iii) improvement of strategic transport infrastructure for rural development; and (iv) support for the institution of an adequate legal and institutional framework to promote public-private sector partnership.

10. The strategy proposed here is also aimed at helping the Government of Madagascar to improve governance in order to boost agricultural and fish production in rural areas (Short-Term Outcome 2). The Bank Group deliverables that will contribute to the attainment of Outcome 2 are: (i) contribution to macroeconomic stability; (ii) promotion of sound rural sector management by preparing program budgets for ministries which play a central role in rural development, such as the Ministry responsible for Agriculture, Livestock and Fisheries, the Ministry of Energy and Mines, the Ministry of Justice, the Ministry of the Economy, Finance and the Budget; and the Ministry of Population, Social Protection and Leisure; (iii) support for the decentralization process in order to transform the municipal councils and regions into effective catalysts of rural development; and (v) promotion of public-private sector partnership. Although these two outcomes mentioned above complement each other in their common goal to boost agricultural and fish production in rural areas so as to increase farmers' incomes and thereby reduce rural poverty, Outcome 1 will specifically support Strategic Thrust 2 of the PRSP, while Outcome 2 will support Strategic Thrust 1. The aim of this strategy is to ensure the continuity of ongoing Bank operations. Indeed, about 69% of the current portfolio supports Strategic Thrust 2 of the PRSP.

11. The implementation of the strategy will depend on the projects currently in the portfolio which will be accelerated, and on four new operations which will be developed and presented to the Board for consideration and approval under ADF-X, between 2005 and 2007. The operations are: (i) the rural water supply and sanitation program in 2005; (ii) the Tuléar Fishing Communities Support Project in 2005; (iii) the Manombo Integrated Rural Development Project in 2007; and (iv) a policy-based loan, in the form of budget support for governance reform. A road project will be also presented to the Board in 2008 under ADF-XI. The Bank Group will also work closely with other development partners such as the World Bank, the EU and Japan for the water supply and sanitation program (which will be implemented under the Rural Water Supply and Sanitation Initiative spearheaded by the Bank Group); the World Bank, the EU, France and the IMF for budget support; and the World Bank and the EU for agricultural sector operations.

12. Considering that low capacity is one of the major constraints on poverty reduction in Madagascar, the Bank Group will continue with its technical assistance and capacity building activities for this country. Hence, capacity building will be a crosscutting theme in all new operations proposed in this strategy.

V. Results-Based Monitoring and Evaluation

13. The monitoring indicators of the strategy outcomes will be drawn from PRSP implementation statistics published by the National Institute of Statistics (INSTAT) and statistics published by the Ministry of Agriculture, Livestock and Fisheries, and the Ministry responsible for water resources and sanitation. Indeed, thanks to the currently well-established collaboration between the Technical Secretariat for Adjustment (TSA), which is responsible for monitoring PRSP implementation, the Directorate General of the Plan and other national institutions, INSTAT currently publishes updated data on poverty incidence and intensity trends at the national and provincial levels.

VI. Conclusion and Recommendation

14. The current high incidence of poverty among the population is a major problem that Madagascar must address in the years ahead. Although the country has substantial assets to tackle this difficult and complex problem, it still faces many challenges that need to be met. The aim of the proposed strategy is to help Madagascar use opportunities to increase the incomes of poor farmers so as to curb rural poverty while coping with the risks caused by the international environment.

15. The Boards of Directors are invited to approve this Results-Based Country Strategy Paper prepared for the Republic of Madagascar for the period covered by ADF-X, with an indicative allocation of UA 100.08 million in the form of loans.

I. INTRODUCTION

1.1 This report proposes the 2005-2007 results-based operations strategy of the Bank Group (CSP) for the Republic of Madagascar under ADF-X. Accordingly, its aim is to define a results framework for the Bank Group strategy. This results framework identifies the long-term development objective of the Government of Madagascar that will be influenced by Bank Group interventions, the medium-term impact and short-term results expected from implementation of the strategy, as well as the deliverables of the Bank for 2005-2009.

1.2 In July 2003, the Boards of Directors approved the Country Strategy Paper (CSP) for 2002-2004 to orient ADB Group operations in Madagascar during the period covered by ADF-X. The aim of this strategy was to contribute to poverty reduction through interventions in the transport sector, economic reform support, capacity-building and control of communicable diseases. The interventions envisaged under this strategy were implemented as planned. During examination of this strategy, the Boards noted with satisfaction the measures taken by the Government to get the economy out of the recession into which it was plunged by the political crises of 2002. The Boards also urged the Government to continue implementing the Poverty Reduction Strategy Paper (PRSP) finalized in June 2003, notably in the areas of institutional development, promotion of financial and judicial good governance and prioritization of public spending in favor of the social sectors and basic infrastructure.

1.3 Since 2003, the Government has been implementing the PRSP with the support of development partners, including the Bank Group. Actions have been undertaken in various areas such as public finance management, corruption control, infrastructure development and promotion of growth to combat poverty. This CSP was prepared mainly on the basis of national policy documents such as the PRSP and the “*Madagascar, naturellement*” Vision, economic and sectoral studies conducted by the Bank Group (country governance profile for Madagascar, Document ADF/BD/IF/2005/152 of 22 August 2005) and by other development partners including the World Bank (public expenditure review, development policy review, Country Assistance Strategy) and the International Monetary Fund (IMF). The list of some of the documents used is presented in Annex 12.

Box 1. Madagascar at a Glance

The Republic of Madagascar is an island in the Indian Ocean with a surface area of 581,540km² and an estimated population of 16.9 million inhabitants (July 2004 estimate). It ranks among the poorest countries, with a per capita GDP estimated at US\$ 251 in 2004. Close to 50% of the adult population is illiterate while life expectancy at birth is 53 years. According to the last National Poverty Reduction Strategy Paper (PRSP) implementation report published in July 2004, poverty reportedly declined in 2003. Hence, 73.6% of the population lived below the poverty line in 2003 compared to 80.7% in 2002. The incidence of poverty is higher in rural areas where 80.1% of the population was living below the poverty line in 2003 compared to 51.8% in urban areas. The human development index (HDI) was 0.484 in 2001. Despite the composite nature of the population, composed of ethnic groups from various origins, the existence of a single language, *Malagasy*, spoken by an overwhelming majority of the people constitutes one of the pillars of the country's national unity. The population is also very youthful (close to 45% is aged 0 to 14) and has a growth rate of 3.03% (2004 estimate). The main religions of the country are traditional religions (52% of the population), Christianity (41%) and Islam (7%).

II. COUNTRY CONTEXT

2.1 Political Context

The recent history of Madagascar seems to be characterized by the recurrence of political crises. The presidential elections of 2001 plunged the country into a serious political crisis after the results were contested by the two main candidates. However, despite this instability, successive governments have apparently not compromised the decision taken in

the early 1990s to implement reforms that will create the right conditions for a market economy. Given this experience which attests to the resilience of national policy choices in favor of economic liberalization, macroeconomic stability and poverty reduction, it can reasonably be assumed that these fundamental economic guidelines defined by the country will be maintained in the years ahead. Hence, the next presidential and legislative elections planned for 2007 and 2008 respectively are not expected to lead to any significant change in the country's economic policies.

2.2 Macroeconomic and Structural Context

Macroeconomic Policies and Performance

2.2.1 *Recent Economic Developments:* After the sharp recession of 2002, during which the Gross Domestic Product (GDP) plummeted by about 12.7%, due to the serious political crisis that rocked the country, Madagascar's economy bounced back with positive growth rates of 9.8% and 5.3% in 2003 and 2004 respectively. This remarkable economic recovery is mainly attributed to the excellent performance of the secondary and tertiary sectors. The secondary sector, which registered an average annual growth rate of 10.1% in 2003-2004, was driven mainly by the buoyancy of free zone enterprises whose production registered an average annual growth of 51.8% over the last two years. As for the tertiary sector, which recorded an average annual growth of 8.5% for 2003-2004, its good performance is fueled by that of the construction and transport sectors. The agricultural sector recorded an average growth rate of 3% in 2003-2004 as a result of certain actions implemented by the Government, notably tax measures on fertilizer, farm inputs and equipment; the rehabilitation of irrigation areas; and improvement of the functioning of irrigation networks. The decline in the growth rate in 2004 compared to 2003 is mainly due to: (i) the impact of cyclones that hit the country in the first quarter of this year; and (ii) the slow growth rate of business activities in the free trade area which was only 27.9% in 2004 compared to 75.8% in 2003. This trend also reflects a return to the performance levels recorded before the political crisis of 2002.

2.2.2 *Budget Policy:* Although there have been some difficult moments, as in 2004, Madagascar's macroeconomic policy over the last five years has generally remained geared towards the maintenance of a stable macroeconomic environment that boosts economic growth and contributes to poverty reduction. With regard to public revenue, the authorities took certain measures in 2003 and 2004 to rationalize and simplify domestic taxation and customs duties. These measures helped to reverse the decline in tax revenue as a percentage of GDP. Hence, the tax burden grew from 10% of GDP in 2003 to 11% of GDP in 2004 after falling from 11.3% of GDP in 2000 to 7.7% of GDP in 2002.

2.2.3 Following the Government's decision to implement an economic recovery and poverty reduction program after the political crisis of 2002, public spending rose substantially from 15.7% of GDP in 2002 to 19.5% of GDP in 2003 and 25.1% of GDP in 2004. This increase concerned practically all public expenditure items namely staff and operating expenditure, excluding salaries, and investment expenditure. Reflecting this greater increase in expenditure, the budget deficit (commitment basis, including grants), which had surged during the crisis from 4.4% of GDP in 2001 to 6.2% in 2002, grew only slightly from the end of the crisis, standing at 4.2% of GDP in 2003 and 4.9% of GDP in 2004. On the whole, Madagascar's budget policy appears to be in line with the macroeconomic stability objectives defined in its poverty reduction strategy. Moreover, the fact that the budget policy is

financed mainly with external concessional resources reduces the risk of budget-related macroeconomic instability.

2.2.4 *Money and Prices:* In order to ensure monetary stability the authorities introduced a new currency, the Ariary, in January 2005. Madagascar's monetary policy objective is to contribute to curbing inflation while ensuring adequate expansion of credits to the economy to sustain economic recovery. The monetary authorities have attained the monetary policy objectives set for 2003 (an M3 growth rate that is below 13.4% and an inflation rate, measured by the year-on-year increase of the consumer price index (CPI), that is below 7%). However, in 2004, a certain number of external shocks (increase in world market prices of oil and rice) and domestic measures (announcement of a temporary tax exoneration for imports of certain agricultural capital goods) generated an increase in imports and put great pressure on the exchange rate of the national currency (FMG), which depreciated by more than 80% in nominal terms from the end of December 2003 to May 2004. Such depreciation of the national currency coupled with the impact of cyclones on agricultural production pushed up the inflation rate. The CPI surged, on a year-on-year basis, from 2% in March 2004 to 27% in December 2004. To address this situation, the monetary authorities raised the Central Bank's prime lending rate as well as the ratio of required reserves. Other monetary and fiscal measures were also implemented. On account of all these measures, the FMG appreciated only slightly by about 11% from May to August 2004. The objective of the authorities for 2005 is to scale the inflation rate down to 5.5% and ultimately to 5% from 2006. During Article IV discussions for 2005, the IMF indicated that this objective was within the Government's reach but felt that its attainment depended on international oil market trends and the implementation of appropriate monetary and fiscal policies.

2.2.5 *Financial System:* Reforms have been implemented in recent years to liberalize and enhance the efficiency of the system, namely: the privatization of State-owned banks, the independence of the CBM, and the creation of an inter-bank currency market in 1994. From 2004, the currency market started functioning non-stop, thanks to the introduction of information and communication technologies. In addition to these reforms, measures were taken to enhance the regulation and supervision of banking activities, namely: Law No. 95-030 of 22 February 1996 on the activities and control of credit establishments and Law No. 96-020 of 4 September 1996 to regulate the activities and organization of mutual financial institutions; the creation of the Banking and Financial Supervision Commission, and the introduction of prudential standards. In spite of all these reforms, a lot still remains to be done to improve on financial sector performance, notably with regard to financial intermediation, diversification of financial products and facilitation of access to the greatest number of financial services. The World Bank and the IMF are currently finalizing their assessment of Madagascar's financial sector. The results of the assessment will be available before the end of 2005 and will help to identify the weaknesses and constraints of the financial sector so that an action and technical assistance program can be designed to improve its performance.

2.2.6 *External Sector:* With an estimated openness ratio (exports and imports as a percentage of GDP) of 41.5% of GDP in 2003, Madagascar's economy, like that of most small countries, is very open to the outside world. Madagascar adhered to IMF Article VIII provisions in 1996 and since then all restrictions on current account transactions have been abolished. However, in accordance with the regulations in force, restrictions continue to apply to capital movements. With regard to the trade balance, Madagascar's main exports are vanilla (27%), textiles (24%), exported mainly by free zone enterprises, and seafood (20%).

Madagascar mainly imports energy products (23%), raw materials (23%), capital goods (23%) and food products (11%). The official announcement in August 2003 of temporary tax exoneration for certain categories of imports led to the aggravation of the trade balance deficit which was not sufficiently offset by the improvement in the unrequited current transfers surplus. The result was a deficit in the balance of payments current account (including official transfers) which reached 4.9% of GDP. The overall balance of payments deficit, which reached SDR 26.2 million in 2003 and SDR 27.2 million in 2004, was financed essentially through debt relief obtained under the HIPC initiative. Gross official reserves represented 2.7 import months in 2003 and were expected to rise to 3 import months in 2004. This external vulnerability indicator appears to stand at a relatively acceptable level.

2.2.7 *Public Debt Management:* In October 2004, the Bretton Woods institutions approved the completion point for Madagascar under the enhanced heavily indebted poor countries initiative (HIPC). The Bank Group approved the completion point for Madagascar on 2 March 2005. Projections show that Madagascar's debt will be sustainable after attainment of the completion point. Indeed, the projections made under the enhanced HIPC show that the ratio of debt servicing to exports should stand at about 5.4% in 2015 and that the debt to exports ratio will be about 110.5% in 2015. The country's external debt indicators should improve further after implementation of the decision announced recently by G8 Heads of State and Government to cancel the debts owed by some poor countries, including Madagascar, to international financial institutions (ADF, World Bank and the IMF). The capacities of debt management structures (Department of Public Debt (DPD) which manages debt statistics, the CBM which has debt management computer systems, and the Department of Public Accounting which is in charge of the domestic debt) should be substantially consolidated so that they can more efficiently accomplish their missions. To that end, the Government is currently building the capacity of the DPD, with ADF assistance, by installing the debt management software designed by the UN Conference on Development. Besides, the Bank Group lends assistance to the authorities to strengthen the DPD for monitoring the implementation of projects and programs financed by development partners. As regards the domestic public debt, it was estimated at 11.5% of GDP in 2004, a decline in comparison to 16% of GDP in 2003.

2.2.8 The macroeconomic reforms of the Government are supported by international financial institutions. In March 2001, the IMF approved a PRGF for the sum of SDR 79 million. The IMF signed the sixth and last review of the PRGF-supported program in March 2005 and approved a disbursement of US\$ 17.2. In 2004, the World Bank approved the first poverty reduction support credit amounting to US\$ 125 million dollars, comprising a loan of US\$ 37 million and a grant of US\$ 88 million. In July 2005, it approved a second poverty reduction credit amounting to US\$ 80 million given as a loan. The European Union gave budget support of €35 million in 2004. A new budget assistance agreement has just been signed for 2005-2007 for the sum of €55 million. Discussions are underway between the Government and the IMF for the conclusion of a new PRGF program.

Structural Issues

2.2.9 Since the new Government came to power in 2002, progress has been made in structural reforms. Hence, in the area of public finance management, the authorities adopted measures to consolidate public finance control organs, increase transparency and accountability by replacing resource-based budgets with program budgets, and computerize public finance management procedures under the Integrated Public Finance Management

System (creation of the Supreme Anti-Corruption Board and the independent Anti-Corruption Bureau). Progress was also made in the area of public procurement reform. With regard to external trade, measures were taken to reduce rates and rationalize the structure of customs duties and levies. Hence, in 2004 the number of customs duty rates was reduced from seven to four and the maximum rate was reduced from 30% to 25%. Export taxes were abolished to boost the country's competitiveness. As concerns parastatal sector reform, the status report prepared in June 2004 by the technical secretariat for privatization indicates that 35 transactions have been completed or reported to be in an advanced stage, out of a total of 53 State corporations featured in the privatization program. Most prices were also liberalized and reforms implemented that led to the introduction of long term leases (99 years) for foreign investors to enhance real estate security. Hence, progress was made in the creation of an enabling structural environment that is conducive to better resource allocation and the consolidation of competitiveness. However, there is need to pursue these efforts, with emphasis on capacity-building.

2.2.10 In spite of the abovementioned progress, some structural constraints persist, notably in the area of budget policy. Hence, the authorities have to continue with efforts to reduce the proportion of external trade taxes in budget revenue, while striving to raise tax revenue, which is currently low (see 2.2.2). There is need to prepare a harmonized methodology, applicable all over the national territory, for evaluation of the market values of real and personal property used in the calculation of several taxes, notably the land tax. There is also need to increase communication with users of taxation services and draft a real taxation policy, designed with due consideration for conventional tax policy parameters such as the potential yield of the various taxes, the capacity of the tax administration and the characteristics of the various taxable goods. The absence of such a policy is one of the serious handicaps that must be overcome in taxation management. The Bank Group supports Government efforts to address these shortcomings within the framework of the Good Governance Institution Building Project (PRIBG).

2.2.11 The monetary policy seems to be geared towards supporting the macroeconomic objectives of the country. However, the Central Bank has to build its banking system supervision capacity and clarify its mission, its monetary policy strategy and its actions towards the public. Indeed, Article 6 of the Central Bank's statutes stipulates that the mission of the Central Bank of Madagascar is to ensure internal and external monetary stability. This dual mission is likely to dilute the responsibility of the CBM with regard to its traditional central bank missions of promoting and maintaining price stability. It is the best contribution that a Central Bank can make to the generation of the nation's general economic objectives.

2.3 Sectoral Context

2.3.1 Madagascar's economy depends essentially on **primary sector activities (agriculture, livestock and fisheries, and forestry)**. This sector's performance has the greatest influence on poverty trends in the country, especially rural poverty. Indeed, its contribution to current GDP in 2004 is 26.2%, and comes essentially from agricultural activities (15.5%), livestock and fisheries (7.2%) and forestry (3.5%). It also accounts for 76% of jobs created in the national economy. The main agricultural sector products are export crops like vanilla, cloves, pepper, lychee, coffee, cotton and food crops such as rice, maize, cassava, sweet potatoes, lima beans and potatoes. Apparently, while agricultural production is much diversified, rice is the main produce.

2.3.2 Indeed, according to the Directorate General of the Economy (DGE) in the MEFB, rice production accounts for about 12% of total GDP and 43% of agricultural GDP. In 2003, about 63% of Madagascar's households (73% in rural areas) were engaged in rice production, 44% of the 7,216,923 plots farmed or developed in Madagascar are rice fields and 58% of the cultivated land area is used for rice farming. Still, according to the DGE, all these farms contribute substantially to the incomes of the majority of rural households and also generate employment since the farming methods are still traditional and require the massive recruitment of hired labor. Madagascar also has enormous potential in the fisheries sector (notably along its western coast in the province of Toliara), tourism, mining and textile industry that the authorities intend to exploit fully.

2.3.3 Despite its immense potential, the development of the agricultural sector and its effective contribution to poverty reduction is still undermined by a certain number of constraints such as the poor quality of agricultural and transport infrastructure to facilitate the supply of indispensable inputs and the sale of produce; the insufficient technical know-how of farmers; limited access to financing mechanisms; the low level of research, guidance and farmer organization; and the tendency to engage in on-farm consumption. Indeed, according to DGE statistics, about 58% of rice production is consumed on-farm. This on-farm consumption trend does not encourage a strong enthusiasm for trade and so does not boost production. Furthermore, the rice price policy did not offer enough incentives to encourage an increase in production. It was only from 2004 that the local rice price rose from 2509 FMG/kg in January 2004 to 6261 FMG/kg in February 2005, as a result of low supply.

2.3.4 Conscious of the major potential contribution of agriculture to poverty reduction, the Government of Madagascar decided, within the framework of the *Madagascar Naturellement* Vision, to rank rural and agricultural development at the top of its poverty reduction priorities. This vision has set the objective of increasing agricultural production by 100% within five years. The General Government Policy which is the annual reflection of Vision objectives has set the goal of increasing rice production by 13% in 2005. It was in recognition of the need to increase agricultural production in order to reduce rural poverty and the Government's decision to give priority to rural development that Malagasy stakeholders endorsed the quest for greater agricultural output as a medium term result of the ADB Group's strategy during the ADF-X period.

2.4 Priority Crosscutting Issues

2.4.1 Governance: In May 2005, the Bank drew up a governance profile which evaluates governance practices in Madagascar, following the main governance elements identified in the Bank Group's policy adopted in 1999. The main conclusion of this study is that progress was made in recent years, but a lot still remains to be done to institute good governance in all aspects of the country's management. Consequently, recent governance evaluations in Madagascar made by various institutions (see details in the governance profile) all agree that progress has been made recently in corruption control. According to Transparency International, the corruption perception index improved from 1.7 in 2002 to 3.1 in 2004 and Madagascar's ranking also improved by 16 points, raising the country from 99th out of 102 countries in 2002 to 83rd out of 145 countries in 2004. Moreover, on 14 March 2005, the Millennium Challenge Corporation, which approves disbursements from the Millennium Challenge Account for eligible countries following a set of performance criteria that include governance quality, selected Madagascar as the first country to benefit from the resources of this mechanism. These governance assessments in Madagascar also converge on

the idea that the country's performance is below average in the areas of property rights, the legal and judicial framework and stakeholder participation. Madagascar is expected to participate in the African Peer Review Mechanism under NEPAD. The ADB Group supports governance capacity building efforts under the PRIBG. Given that governance is crucial to efficient poverty reduction, consultations with stakeholders during preparation of this strategy recognized the need for the Bank to continue supporting Madagascar's efforts in this area. The implementation of the Good Governance Institutional Development Project will be accelerated and a new policy-based loan to promote governance reforms shall be prepared and presented to the Board in 2006. (For more information on Madagascar's governance assessment, see the Governance Profile for Madagascar).

2.4.2 *International Labor Standards:* Madagascar has ratified the core conventions of the International Labor Organization (ILO), except those relating to forced labor. The agreements ratified are Nos. 29, 87, 98, 100, 111, and 138. On the whole, the ratified conventions were incorporated into the new Labor Code. However, the enforcement of these standards on the ground is still limited because the Inspectorate of Labor lacks the necessary technical and logistical means. The proliferation of trade union organizations poses enormous problems with regard to the identification of representative interlocutors who can dialogue with the Government or private sector employers. The monitoring of labor market indications is currently not satisfactory because of the lack of reliable statistics. The PRSP also recognized that child labor, especially in poor families, continues to be a social problem that needs to be addressed by the country.

2.4.3 *Regional Integration:* Madagascar participates actively in regional economic integration and cooperation. It is currently a member of several regional economic groupings such as the Indian Ocean Commission (IOC), the Regional Integration Facilitation Forum, and the Common Market of East and Southern Africa (COMESA). Recently, it also joined the Southern African Development Community (SADC). These regional integration structures provide market access opportunities for Madagascar's products, and therefore improve the growth prospects of Madagascar's economy. Indeed, according to recent figures from the National Institute of Statistics (INSTAT), 9%, 7% and 6% of Madagascar's exports in 2004 were destined for the IOC, COMESA and SADC markets respectively. Meanwhile 2%, 4% and 10% of the country's imports come from the IOC, COMESA and SADC respectively. These figures indicate that Madagascar's trade with its regional partners could develop more if adequate trade facilitation measures are implemented. However, the international commitments raise some concerns in business circles in Madagascar because the national institutions responsible for managing the related agreements do not have adequate capacity to inform them of the benefits they can derive from the said agreements. There is need to substantially build the capacity of the Ministry of Trade, Industry and Private Sector Development, which is responsible for implementing the trade agreements.

2.4.4 *Population:* Although the average population density is reasonable (about 28.8 inhabitants/km²), the population is not equitably distributed all over the national territory since more than half of it is concentrated on a little more than a tenth of the national surface area, thereby creating regional imbalance. High density areas have overexploited farmland while low density areas remain under-exploited. On account of its insular nature and geographical remoteness from major international migratory currents, Madagascar has little demographic exchange with the outside world. However, there seems to be greater internal migration. There are permanent migratory flows to the west and growing rural exodus although the rate is relatively low. A National Population Policy for economic and social

development was adopted in 1990. The general objectives of this policy include: (i) the reduction of the fertility rate in order to achieve lower growth rates that are compatible with attainment of the nation's economic and social objectives and (ii) the reduction of morbidity and mortality rates, especially for mothers and children. Several of the Government's development partners, including institutions of the UN system, assist the government in the implementation of this policy. The authorities are also in an advanced stage of preparing a social protection policy and strategy.

2.4.5 *Gender Issues:* Madagascar's Constitution expressly prohibits gender-based discrimination and incorporates the international human rights charter, the African Charter on Human and People's Rights and conventions on human and children's rights into the nation's substantive law. The country has also ratified most of the international legal instruments that advocate gender equality. On the whole, gender disparity, particularly in access education, is not significant. However, to eliminate the existing disparity, particularly in access to employment and remuneration, the Authorities have prepared a Gender and Development Action Plan (PANAGED) with precise programs aimed at greater promotion of gender issues and the involvement of women in the country's socio-economic development. PANAGED is implemented with the support of several development partners. Moreover, the promotion of gender issues is one of the specific missions of the Ministry of Population, Social Protection and Leisure (For more details on gender issues in Madagascar, see the Governance Profile).

2.4.6 *Communicable Diseases:* Madagascar's epidemiological profile is dominated by communicable diseases such as malaria, diarrheal diseases, acute respiratory infections, bilharzia, plague and sexually transmitted diseases (STDs). Although HIV/AIDS prevalence is generally low in the entire population (1.1%), it is above 5% in several population groups with high risk behavior. Despite this low prevalence rate, the country is not spared from a possible epidemic, and general trend shows that the disease is gaining ground steadily. Following the spread of the epidemic, the results of projection models show that the forecast sero-prevalence rates will range from 3% to 15% by 2015. Given the poor perception of the epidemic by the population and the forecasted HIV/AIDS trends, the Government has drawn up a strategic AIDS control plan with assistance from its partners. The ADB Group supports the Government's efforts through, in particular, the HIV/AIDS support project in IOC member countries approved by the Board in 2004 and the Support Project for the Control of Communicable Diseases, HIV/AIDS/STDs and tuberculosis, approved by the Board on 8 December 2004.

2.4.7 *Environment:* According to a recent study, Madagascar features among 10 of the world's biodiversity hotspots, and has one of the richest ecosystems in the world. The country is characterized by: (i) moderately stressed environmental systems, mainly biodiversity and soil deterioration from human causes (deforestation); (ii) a high degree of vulnerability and a limited capacity to address basic survival needs; (iii) active participation in international conventions (desertification control, climate change, biodiversity and persistent organic pollutants); and (iv) low contribution to global carbon emissions. The unique natural resources of Madagascar are threatened with extinction. The natural forest that originally covered most of the island is disappearing rapidly at the rate of 200,000 to 300,000 hectares per year. Only 16% of Madagascar's surface area is still covered by natural forests, and the protected areas that are supposed to shelter representative elements of the country's biodiversity only cover 3% of the national territory. To stave off the environmental threats facing the country, the authorities have adopted a number of laws and statutory instruments on the environment and implemented the Environmental Program with the support of the

World Bank and other development partners. This program is in its third phase. Madagascar also has to bear the very costly consequences of natural disasters such as cyclones. An early warning system has to be installed to protect and safeguard facilities as well as urban and agricultural capital.

2.4.8 *Participation*: The legal framework governing these organizations is composed of Ordinance No. 60-133 of 3 October 1960 and the Law of 14 August 1997. According to these instruments, civil society organizations are diversified and can be set up without prior authorization. Their typology makes a distinction between associations and NGOs, with the possibility for the former to accede to the status of the latter under certain conditions. Madagascar's civil society is organized into a multitude of entities, most of which are associations, even though they claim the label of NGOs. According to provisional statistics for 2000 compiled by a Malagasy NGO (DRV), it has about 950 member organizations of which 31% are active in the rural development sector, 25% in the mutual funds and credits sector, and 21% in the advancement of women and social development. Its members are most represented in the provinces of Toliary with 237 organizations, Antsirana with 119 organizations, and Toamasina with 78 organizations. The other areas of intervention for NGOs are the fight against corruption, the environment, consumer protection, the university system, natural resource management and denominational organizations. Capacity building activities should be carried out to encourage more effective participation by the civil society. With regard to partnership between the State and the private sector, an equal representation structure was set up between the Government and the private sector, known as the Corporate Recovery Steering Support Committee (CAPE), to operationalize identified actions for attaining this objective. Apart from CAPE, there are other structures that promote dialogue between the State and the private sector. These include employers' organizations such as the Malagasy Enterprises Group (GEM), the Group of Free Zone Enterprises and Partners (GEFP), or again the Federation of Chambers of Commerce, Industry, Handicrafts and Agriculture of Antananarivo. However, it should be noted that Madagascar does not yet have a modern legal and institutional framework that can promote public-private partnership (PPP). The Bank Group provides support to the Authorities to fill this gap through the PRIBG.

2.5 Social Context and Poverty

2.5.1 In June 2005, the Government of Madagascar published a preliminary report to update its PRSP. According to this report, economic growth seems to be one of the major determinants of poverty in the country. Hence, in 1997-2001, a period of robust performance during which growth exceeded 5% per year, the incidence of poverty¹ also fell below 70%, even though the gap between rich and poor widened at the same time. In 2002, the incidence of poverty rose to 80.7%, following the deep economic recession caused by the country's political crisis. The economic recovery measures implemented by the new government at the end of the political crisis helped to reduce the incidence of poverty to 73.6% in 2003. In 2004, a certain number of shocks such as rice price hikes and the depreciation of the national currency fueled inflation and slightly raised the incidence of poverty to 74.1%. Apparently, there is a strong correlation between Madagascar's economic situation and its poverty level, since periods of economic growth and stability coincide with periods of decline and increase in the incidence of poverty.

¹ In 2003, this poverty line was Ar 230, 800 per year, representing about €165.

2.5.2 Apart from this link between economic growth and poverty reduction, the poverty analysis of Madagascar has also revealed that poverty is essentially a rural phenomenon. Indeed, according to the above-mentioned report, 80% of the rural population is poor compared to only 54% of the urban population. In all the Faritanys, except the capital Antananarivo, the incidence of rural poverty is almost always higher than 80%. In the province of Fianarantsoa, it has even reached 88%. A study of poverty distribution between urban and rural areas confirms the fact that poverty in Madagascar is, above all, a rural phenomenon. Hence, in 2004, 83% of the 12.2 million poor people in Madagascar (out of an estimated population of 16.9 million inhabitants) lived in rural areas. Poverty intensity (measured by the difference between the incomes of the poor and the poverty line) is also higher in rural areas at 47% compared to 41.6% in urban areas. From the geographical standpoint, about 39.7% of the poor in Madagascar live in the southern part of the country (Provinces of Fianarantsoa and Toliara) and 34.1% in rural areas. Given such concentration of poverty in rural areas, the priority given by the Government to rural development in the PRSP and the *Madagascar naturellement* Vision is fully justified. Consequently, the Bank Group strategy under ADF-X as proposed in this CSP will aim at attaining concrete results in terms of rural development.

2.5.3 Another poverty analysis study conducted by INSTAT also revealed other determinants of poverty. Hence, the size of households, the educational level of the household head, the proportion of children under 5 living in the household, the proportion of children aged 5-14, availability of access roads, the existence of socio-economic infrastructure, the socio-professional category of the household head and vulnerability to risk are the main determinants of a household's level of poverty. The main factors of vulnerability identified by the PRSP are natural disasters, price variations, lack of material and human capital (health and education), dependence on agriculture, lack of full time work, poor infrastructure (transport, access to energy) and lack of communication. Hence, the electrification rate in Madagascar is very low, with a capacity of only 251 megawatts for a population of which 78% has no access to electricity. The rate of rural electrification is below 3.5%. The Government's strategy to increase access to electricity lays emphasis on the development of public-private partnerships.

2.5.4 Table 1 below presents the incidence and intensity of poverty according to the socio-professional category of household heads. As evident in the table, the incidence and intensity of poverty are always higher among socio-professional categories in the rural sector (farmer, regardless of farm size, stockbreeders and fishermen). To support government efforts to promote rural development in order to combat poverty in the country, the expected medium-term results of the strategy will be an increase in agricultural and fish production in the southern part of the country where the incidence and intensity of poverty are the highest.

Table 1: Incidence and Intensity of Poverty according to Socio-professional Category

Socio-professional Category	Incidence of Poverty	Intensity of Poverty
Large-scale farmer	89.9	57.4
Medium-scale farmer	91.4	56.7
Small-scale farmer	93.6	61.9
Stockbreeder or fisherman	68.4	35.7
Non-agricultural entrepreneur	57.2	23.7
Trader/service provider	52.2	19.1
Salaried managerial staff	34.3	13.1
Employee or manual worker	62.1	26.4
Unskilled labor	84.4	46.3
Other	65.8	30.2
Overall	80.7	47.6

Source: PRSP: First annual report of implementation, July 2004, Page 12.

2.5.5 Measurements of poverty based on various social indicators, notably **access to drinking water and sanitation services**, equally underscore the message that the incidence of poverty is very high in Madagascar. Hence, according to the Millennium Development Goals report published by the Government in 2004, only 11.7% of the population had access to potable water in 2001. It is also estimated that close to 87% of the population has no access to adequate sanitation services. In 2004, the rate of access to potable water in rural areas was 14% (compared to 66% in urban areas) and the rate of access to sanitation services was 8% in rural areas (compared to 26% in urban areas). Hence, the southern part of the country is experiencing a chronic lack of access to potable water and sanitation services. With regard to the health situation, the infant mortality rate and number of births attended by qualified health staff were 79 per 1000 and 24% respectively in 2003. The ADB Group supports the Government's efforts in the social sector through the Education III and Health II projects. The implementation of these projects will be accelerated during the implementation of the present strategy.

2.5.6 **The limited coverage ratio for potable water and sanitation has many effects on health, education and economic development.** The direct consequences can be seen in the area of public health. The vulnerable segments of the population in particular suffer from several water-borne diseases such as diarrhea, dysentery, gall, cholera and bilharzias. For example, diarrheal diseases are the second cause of morbidity and affect 51% of children under the age of 5. Furthermore, about 2.5 million Madagascans suffer from bilharzia, 4.5 million of them are exposed to it and 60% of child deaths are attributed to poor sanitation and the resulting poor water quality. According to the statistical surveys conducted by the Ministry in charge of water and sanitation, an estimated 3.5 million school days are lost per year because of diseases caused by poor quality water and inadequate hygiene and 6 million work days are lost by the labor force due to the lack of potable water and inadequate sanitation. It was in a bid to address this situation which perpetuates poverty that the consultations held with Malagasy stakeholders during preparation of the present strategy identified the improvement of access to potable water and sanitation services in rural areas as one of the strategic outcomes expected from implementation of the present strategy. To that end, the Bank's deliverables for 2005-2009 will include capacity building and the development of water supply and sanitation infrastructure in rural areas.

2.5.7 The PRSP also cites an inadequate governance framework notably in the areas of real estate security (for more information on real estate problems in Madagascar, also see its country governance profile), accountability in the management of agricultural sector resources and security in rural areas (notably the stealing of agricultural produce) as some of

the causes of the slow growth in the agricultural sector. The improvement of governance, notably those aspects that have a direct impact on rural development will be one of the outcomes expected from implementation of the ADB Group strategy proposed in this report.

2.6 External Environment and Medium-term Economic Outlook

2.6.1 *Medium-term Prospects:* As indicated in paragraphs 2.2.6, 2.4.4 and 2.4.5, Madagascar is an economy that is open to the outside world. Consequently, national economic prospects for growth and poverty reduction will continue to be heavily influenced by international economic trends. Going by this assumption, the medium-term impact of the external environment on poverty reduction trends in Madagascar will depend on the relative importance of two factors. First of all, the expected increase in external aid flows should help the country to consolidate its macroeconomic stability while providing it with more means in its poverty reduction efforts. Indeed, a certain number of recent factors, such as the attainment of the completion point of the HIPC initiative in October 2004 (see Paragraph 2.2.9); bilateral debt relief granted by a certain number of bilateral partners such as Canada, France and Great Britain; the announcement made in March 2005 by the US Government to grant aid of \$110 million under the MCA; and the decision taken in June 2005 by the G8 to cancel the debts owed to international financial institutions (African Development Fund, World Bank and IMF) by a certain number of poor countries including Madagascar, all raise prospects of a substantial increase in external financial aid flows to Madagascar. Since public capital flows will continue to dominate in external capital flows to Madagascar, such increase should have a positive effect on economic growth and, consequently, on poverty reduction. The country could also benefit from the rapid development of mining activities that could take place in the south with the expected arrival of foreign investors.

2.6.2 *Constraints:* Another factor that should influence Madagascar's medium-term economic prospects, and which is related to the external environment, is the abolition of the Multifibre Arrangement (MFA). This will pose a major constraint to the country in the short term. Hence, Madagascar's textile industry - whose rapid expansion in the free trade areas that developed around the capital Antananarivo has played an important role in increasing exports, creating employment, distributing income and reducing the incidence of poverty - will be forced to adapt to the new context of international competitiveness that follows the disappearance of the MFA. The resumption of activities in free zone enterprises accounts for the decline in the incidence of poverty in Antananarivo from 51.2% in 2002 to 42% in 2003. Madagascar's free zone textile enterprises should develop greater capacity to adapt in order to hold and increase their market share against the main beneficiaries of MFA abolition, namely China, India and Pakistan. For such an adaptation process to be beneficial to Madagascar, the Government has to implement appropriate measures to maintain the competitiveness of the national economy through partnership with the private sector and development partners. In addition to this constraint that is specifically related to the abolition of the MFA, the higher costs that could arise from inappropriate macroeconomic and structural policies in a context of globalization will continue to limit the scope of Malagasy stakeholders to define and conduct of their poverty reduction strategy. The continued increase in world oil prices could have a negative impact on growth prospects and poverty reduction (see Box 2 for an analysis of the impact of increase in oil prices on Madagascar's economy).

2.6.3 Considering all these influences, the Government's macroeconomic framework, designed in collaboration with the IMF, forecasts that the growth rate would stabilize at about 6% in 2009. The inflation rate should also stabilize at about 5% in 2009 and the budget

deficit (including grants) should fall to 1.6% of GDP compared to 3.9% of GDP in 2005. This deficit will be entirely financed with external resources. With regard to poverty reduction prospects, the Government has prepared a report on the status and prospects for attaining the Millennium Development Goals. According to this report, the goal of halving the poverty rate by 2015 will be potentially² attained. The report also indicates that the goal of halving the percentage of people with no access to potable water by 2015 has a low attainment potential especially in rural areas. The prospects for attainment of the other MDGs are presented in Annex 11.

Box 2 : Impact of Oil Price Increase on Madagascar's Economy

The upward trend of oil prices, which started towards the end of the 1990s, accelerated in recent years. Accordingly, the basket price³ of OPEC crude increased by 15.4% and 28.3% in 2003 and 2004 respectively, and by 36% over the first eight months of 2005 in comparison to 2004. In 2004, the increase in oil prices contributed to macroeconomic instability, in particular, a higher than expected inflation and substantial depreciation of the exchange rate of the national currency; it was necessary to take financial and tax measures to remedy the situation (see Paragraph 2.2.4). According to provisional estimates provided by the authorities of Madagascar in June 2005, the continued increase in oil prices could, in 2005, have a negative impact on economic growth by 0.36 percentage point of GDP. These estimates and projections of budget impact on external accounts will be finalized before the end of 2005, in particular during the IMF discussions.

2.7 Private Sector Business Climate

2.7.1 The progress made in macro-economic stabilization, the simplification of visa procedures, the granting of work and residence permits and economic liberalization have helped to improve the business climate. Other texts to improve private sector business conditions were adopted, such as the new commercial arbitration law and the code of ethics for judges. These changes, coupled with the improved performance of the banking sector after privatization of two State-owned banks, helped to attract private investors who generated more than 60% of total investments in 2001. According to the IMF, the private investment rate was 10.1% of GDP in 2003. The authorities are also in the process of finalizing an investment climate assessment with World Bank support. Besides, they very much hope that the setting up of the 22 regions through the decentralization process will improve the investment climate and boost private sector development all over the entire national territory.

2.7.2 However, despite the progress made, certain problems persist. Private sector development in Madagascar is still affected by the investment climate and notably the lack of basic infrastructure, the high cost of production factors, the lack of medium and long term financing, the poor institutional capacity of the banking sector and an inadequate legal framework. Moreover, with regard to the statutory and judicial framework, arbitration procedures remain long and ill-adapted to the new context. The human factor also constitutes a major handicap to efforts aimed at improving the investment climate. Indeed, there is a real need to reconsider the working and salary conditions of judicial and legal officers and provide them with refresher training. These various elements have compounded the effects of

² This report evaluates progress on a scale that ranges from: probably, potentially, unlikely to insufficient data (from the highest probability of attaining the goal to the lowest probability represented here by the lack of evaluation due to insufficient data).

³ Source: Calculation of services from OPEC data. The OPEC basket comprises eleven types of crude.

unwieldy and bureaucratic administrative procedures and especially high factor costs (especially for energy, transport and water) on the investment climate. The World Bank calculates the Ease of Doing Business Index for most countries, which measures the favorable nature of the business climate according to seven main criteria (business start-up costs, ease of recruitment and dismissal, registration, access to credit, investor protection, execution of contracts and cessation of a business activity), with the highest values indicating better protection of investors' rights. Preliminary results for 2005 indicate that this index was 15.4 for Madagascar (30.5 for Botswana and 28.3 for Tunisia). According to these calculations, although efforts aimed at improving the business environment for local and foreign investors must be crosscutting and target all the abovementioned criteria, it is mainly in the areas of investor protection, business start-up costs and business closure procedures that Madagascar really lags behind.

2.7.3 The setting up of a one-stop service has helped to cut the costs of administrative bottlenecks, although the issue of high factor costs remains unsolved. Whatever the case, there is need to continue with the modernization of the business legal framework already started by the Human Rights Reform Commission (for more information see the progress already made by this Commission in the area of business law reform, see the governance profile), and especially to design and set up an adequate legal and institutional framework to promote the various forms of public-private partnership. The Bank supports the Government's efforts in this area through the PRIBG.

III. NATIONAL DEVELOPMENT AGENDA AND MEDIUM-TERM PROSPECTS

3.1 Key Elements of the Government's Development Agenda

3.1.1 *PRSP*: In a bid to consolidate its poverty reduction efforts, the Government of Madagascar finalized its PRSP in June 2003 through a participatory approach that involved all stakeholders in the poverty reduction process. This strategy identified three strategic thrusts that should guide poverty reduction efforts, namely to: (i) restore the rule of law and good governance; (ii) stimulate and promote broad-based economic growth, and (iii) stimulate and promote systems to ensure human and material security and large-scale social protection.

3.1.2 The actions aimed at implementing strategic thrust 1 entail stepping up corruption control, promoting democracy, instituting the rule of law and bringing the administration closer to the grassroots. The actions under strategic thrust 2 are aimed at raising the growth and investment rates and creating a more competitive and enabling climate for private sector development in order to reduce the cost structure in Madagascar's economy. Strategic thrust 3 three will be implemented through actions aimed at ensuring education for all and improving education quality at all levels, promoting mother and child health, increasing the access rate to potable water and sanitation, intensifying malnutrition control, stepping up the combat against communicable and non-communicable diseases and reducing social exclusion. Text box 3 below sums up the main PRSP monitoring indicators.

Box 3: Some Key PRSP Objectives

- Reduce the poverty rate from 73.6% in 2003 to 36.8% in 2015;
- Raise agricultural production by 100% in five years and by 200% in ten years;
- Raise agricultural exports by 100% in five years and by 150% in ten years;
- Increase the percentage of the rural population having continuous access to potable water from 17% in 2005 to 52% in 2015;
- Increase the percentage of the rural population having continuous access to sanitation services from 9% in 2005 to 54% in 2015;
- Attain a growth rate of 8% to 10%;
- Increase the net enrolment ratio from 82% in 2002/2003 to 100% in 2015;
- Reduce by two-thirds before 2015 the infant mortality rate which stood at 76.6 per 1000 in 2004;
- Increase the number of kilometers of road maintained and/or rehabilitated from 4000 km in 2003 to 16900 km in 2006.

Source: DSRP, Update, June 2005, and National Report on MDGs, September 2004.

3.1.3 *The "Madagascar, naturellement" Vision:* In a bid to speed up poverty reduction, the Government of Madagascar has just crafted a new 2020 Vision for Madagascar entitled: '*Madagascar naturellement*', and a General Government Policy for 2005. The Vision focuses on rural development as the top priority for Madagascar in the years ahead. The specific objectives mentioned in the Vision include (i) a 100% increase in agricultural output in five years and 200% in 10 years, (ii) a 100% increase in agricultural exports in 5 years and 150% in 10 years, (iii) a 50% increase in industrial textile production in five years and 200% in ten years, (iv) a 50% increase in agro-industrial food production in five years and 150% in ten years, (v) an increase in tourist turnover from 160,000 in 2003 to 400,000 in five years and to 800,000 in ten years. The Vision will become the reference framework for all future Government actions. In June 2005, the Vision was incorporated into the PRSP, of which it henceforth is an integral part. The General Government Policy for 2005 identifies 11 national programs for implementing the Vision. These programs focus on good governance, decentralization, education, health, water supply, energy, agriculture, the private sector, transport, tourism and telecommunications respectively. These 11 programs are consistent with the 15 PRSP programs.

3.1.4 The PRSP, designed through a participatory approach involving representatives of the Government, the private sector, civil society and development partners, covers the key areas of poverty reduction as evident in overall poverty reduction experience, namely: promoting broad-based growth; consolidating good governance in the areas of transparency, accountability, promoting stakeholder participation, ensuring corruption control and the legal and judicial framework; and putting adequate safety nets in place. Its strong points notwithstanding, the PRSP still has the following weaknesses: (i) the need to continue with efforts that will lead to a better definition of strategic priorities; (ii) the high number of key performance indicators (thirty-one) and those retained under the World Bank's poverty reduction support loan; and (iii) the fact that a strict implementation deadline is not set for each indicator. In spite of these few shortcomings, the PRSP is an adequate framework for World Bank support to the Government's efforts to reduce poverty and attain the MDGs.

3.2 Assessment of Progress Agenda Implementation

3.2.1 In September 2004, development partners conducted an assessment of PRSP implementation under the leadership of the World Bank and the International Monetary Fund.

The conclusions of this assessment indicate that progress has been made in PRSP implementation, notably in the areas of public spending, corruption control, transport, education, health, HIV/AIDS control, malnutrition control, water supply and rural sanitation and implementation of social protection schemes. It was in consideration of its satisfactory progress in PRSP implementation that the Bretton Woods institutions approved the completion point for Madagascar in October 2004 under the enhanced HIPC initiative. While recognizing this progress, the assessment also stressed the need to continue with efforts to enhance the definition of priorities and better evaluate the cost of the various actions defined in the PRSP.

3.2.2 A public expenditure review (PER), which has become common practice in Madagascar, has just been finalized with the support of the World Bank and the other development partners. This review entails examining the efforts deployed by the Government to address the challenge of poverty reduction. Hence, it analyzed resource allocation and the extent to which the current budget and budgetary practices enable the Government to implement the PRSP. The key sectors retained in the review are education, infrastructure, the environment, agriculture and health. The main problems cited by the PER include: (i) the insufficient alignment of public expenditure to PRSP priorities, (ii) poor revenue projection capacity, (iii) the existence of unbudgeted expenditure which undermines budget credibility, and (iv) a low budget implementation rate⁴.

3.3 Partnership Framework

3.3.1 Although there is need to pursue efforts to improve the PRSP, it can be stated that its finalization and adoption by Malagasy stakeholders (the State, private sector, various components of the civil society, development partners) constituted significant progress towards the institution of a partnership framework between development partners. Indeed, the PRSP serves as a framework for the interventions of all development partners, including the ADB Group. The introduction of such partnership in Madagascar is facilitated by the fact that the number of partners who are really active in the country is relatively limited. Hence, in terms of the financing mobilized, the most substantial funds come from multilateral financial institutions (World Bank, ADF, IMF) and a limited number of bilateral partners which include France, Japan, Germany and, more recently, Norway. The European Union and UN institutions (UNDP, UNICEF, and ILO) are also very active in the country and provide assistance to the Government in many areas. Multilateral financial institutions give part of their assistance in the form of rapid disbursement resources thereby contributing to the maintenance of macroeconomic stability, although it is the IMF that leads the other partners in monitoring macroeconomic policies on budgetary and monetary plans. The World Bank plays a dominant role in structural reform. The ADB Group is striving to be the lead agency in the area of governance. The intervention areas of the various development partners are presented in detail in Box 4.

3.3.2 During the period of the current strategy, the ADB Group will continue to work in partnership with other development partners. Partnership with the World Bank will be consolidated notably in the preparation of budget support. Indeed, the two institutions have agreed to work closely in their respective forthcoming budget support programs (third poverty reduction credit of the World Bank in 2006 and the ADB's policy-based loan) and in

⁴ For more information on public expenditure review, see World Bank, Madagascar Public Expenditure Review; The Challenge of Poverty Reduction, February 25, 2005, AFTPR Africa Region, Report n° 30331-MG.

the preparation of a common matrix for reforms supported by these two operations. Partnership with the UNDP which gained momentum during preparation of the governance profile will also be consolidated.

Box 4. Development Partners' Support to the Poverty Reduction Strategy

Agriculture and rural development: The World Bank funds the Rural Development Support Project (US\$89 million) which is aimed at raising incomes and reducing poverty in rural areas. France supports Strategic Option 2 of the PRS with interventions aimed at promoting rural growth, the sustainable management of shrimp resources, the development of urban and port infrastructure and environmental protection. The ADB Group funds the Young Rural Entrepreneurs Project, Bas-magoky Farming Area Rehabilitation Project, and the Preventive Locust Control Project. The other partners intervening in the sector are the European Union, France, IFAD, FAO, OPEC, Japan and the United States.

Social sector: The Bank supports the Government's efforts in the social sector. Hence, 4 of the 10 indicators for monitoring the poverty reduction support credit measure the progress of social indicators. Madagascar is also one of the countries that benefit from the Fast Track education initiative. The ADB Group is present in this sector through the Education III and Health II projects, the HIV/AIDS and communicable disease control project and the HIV/AIDS project for member countries of the Indian Ocean Commission whose membership includes Madagascar.

Infrastructure: The World Bank funds (i) the transport project (US\$150 million) aimed at rehabilitating the country's main transport infrastructure in order to cut costs and facilitate trade; (ii) the rural transport project (US\$ 80 million) aimed at facilitating access to markets, schools, health centers, and other economic and social infrastructure for rural communities. The European Union supports implementation of the actions identified in Strategic Option 2 in the area of road infrastructure (€250.5 million). France also intervenes in the development of urban and port infrastructure. The ADB Group finances the road project in Toliary province, the road rehabilitation and maintenance project, the rehabilitation project for RN1bis (transit highway 1 bis) and the Cyclone Damage Repair Project. The other important partners are Japan, Norway, ABEDA, OPEC and the Kuwaiti Fund.

Water and sanitation sector: The main stakeholders in this sector are the ADB Group, intervening through the rural water supply and sanitation project in the entire south of the country, the European Union, World Bank, Japan, UNICEF and UNDP.

Social fund and poverty reduction: The World Bank funds (i) the Community Development Fund (\$160 million) which is aimed at improving socio-economic services in poor communities, improving governance and building local capacity.

Environmental protection: The World Bank finances the third environmental program (US\$ 40 million) to improve the protection and sustainable management of the biodiversity. The other development partners present in this domain are France, UNDP, GTZ, USAID and the EU.

Good governance and capacity-building: The ADB Group supports the efforts of the Government of Madagascar in the area of good governance through PRIBG, approved by the Board on 8 December 2004. The goal of this project, which amounts to UA 5.86 million, is to contribute to national capacity-building in the area of financial and judicial good governance. The World Bank funds the governance and institutional development project (US\$ 30 million) which assists the Government with PRSP implementation by building capacity in the areas of public finance management, justice, corruption control and capacity building for certain local training institutions (ENAM, ENMG, CNFA); and (ii) the mining governance project (US\$ 32 million), which aims at enhancing transparency and good governance in the mining sector and promoting key reforms in the same sector. The European Union supports implementation of Strategic Thrust 1 of the PRS in the area of judicial governance, consolidation of the Directorate General of Customs, the police (€8 million) and support to councils and rural organizations (€32 million). The UNDP supports the implementation of Strategic Option 1 of the PRS which is aimed at promoting good governance, notably legislative reform, the functioning of the judiciary, public administration and stakeholder participation. The UNDP also intervenes in micro-finance, literacy, youth integration into the labor market, income improvement to combat food insecurity, water and sanitation, the environment, risk and disaster prevention and management, and HIV/AIDS control. In all these domains, the UNDP's strategy is to build the capacity of the main stakeholders and support advocacy actions in areas such as the planning and mobilization of stakeholders and resources.

Economic growth: The World Bank is currently preparing a project for integrated growth centers (US\$ 97 million) which is aimed at promoting broad-based growth by focusing on export free zones (Antananarivo-Antsirabe), tourism and agro-industries (Nosy be and Toalagnaro) and the mining sector (Toalagnaro).

Macroeconomic management: The IMF supports reforms in the areas of macroeconomic management, notably budgetary, monetary and structural reforms. The last tranche of the PRGF, amounting to SDR 79 million, which the IMF approved in 2001, was disbursed in March 2005. The authorities expressed their intention to request for a new PRGF to support their efforts to improve macroeconomic management.

Private sector development: The key players in this sector are the World Bank, through the Private Sector Development Project, France, and the ADB Group. Since the beginning of its interventions in Madagascar in 1992, PROPARCO, a specialized subsidiary of the AFD which funds the private sector, has committed resources amounting to €47 million. The Bank Group also supports private sector development under the Good Governance Institutional Development Project.

3.4 Challenges and Risks

3.4.1 *Challenges:* With the adoption of the ‘*Madagascar, naturellement*’ Vision in 2004, and its incorporation into the PRSP, Malagasy authorities succeeded in designing a PRSP which is truly strategic by making the rural sector the focus of its poverty reduction efforts. Considering (i) the progress made to ensure macroeconomic stability under IMF-supported programs and the prospect of continuing IMF support in the medium term, and (ii) the prospect of an increase in resource flows from abroad, Madagascar should continue to have the means to preserve its macroeconomic stability while receiving more resources to finance its poverty reduction programs. Hence, the country’s main challenge will be to maintain the focus on the rural sector during implementation of the poverty reduction strategy and especially to speed up effective mobilization of available resources.

3.4.2 *Risks:* The main risk in PRSP implementation continues to be insufficient national capacity. Madagascar needs to substantially build its national capacity to match the scope of its ambitions. Indeed, national expertise in various areas such as good governance, design and implementation of poverty reduction programs and private sector development is still limited. This stems from the highly insufficient number of managerial staff with high-level expertise in analyzing and implementing the various aspects of economic policy, the absence of procedures manuals in the various services to guide staff in the conduct of their duties, insufficient further training for staff, limited operating budgets for the various services, the absence of adequate performance-related incentive systems and a highly undeveloped institutional base. It will also be necessary to improve employment of the skills available in the country. Under the PRIBG, the ADB Group works in collaboration with other development partners to support national capacity-building.

3.4.3 Another category of risk relates to the coordination of external aid. Much progress has been made in this area in recent years with regard to coordination between development partners, notably on the use of budget support. As we will see later, development partners and the Government have agreed on a partnership framework aimed at ensuring harmonization and alignment of budget support procedures. It is important to step up coordination, notably in the preparation of the assistance strategies of the various partners and the preparation and implementation of interventions, and to promote and reinforce effective ownership of the coordination process by the Government and other stakeholders in Madagascar. Successful PRSP implementation also depends on progress in this area. Such ownership will depend on the building of national capacity in the analysis of development projects and policies.

3.4.4 Madagascar is also a frequent victim of natural disasters, notably cyclones. Such disasters cause serious damage to agricultural infrastructure and could therefore impact on Bank actions in the rural sector. However, this risk is mitigated by the fact that the country is currently modernizing its natural disaster early warning system.

IV. BANK GROUP COUNTRY ASSISTANCE STRATEGY

4.1 Country Context and Strategic Selectivity

4.1.1 The ADF-X strategy is based on (i) the PRSP and the ‘*Madagascar, naturellement*’ Vision, drafted recently by the authorities, (ii) the results of consultations with Malagasy stakeholders, (iii) economic and sector studies (ESS), carried out by the

Government, the Bank Group and other development partners, and (iv) lessons learnt from a review of the Bank's past performance. The conclusions of all this analytical work and the guiding principles approved by the ADF for preparing results-based country strategies such as selectivity in the choice of interventions all underscore the need for the Bank Group to continue focusing on poverty reduction as a key development goal which the Bank Group strategy should help to attain under ADF-X. To that end, Bank Group interventions will focus on two main pillars, namely: (i) improving the quality of rural infrastructure in order to boost agricultural and fish production in rural areas (Pillar 1), and (ii) improving governance to boost agricultural and fish production in rural areas (Pillar 2). Pillar one will support Strategic Thrust 2 of the PRSP which is aimed at stimulating and promoting broad-based economic growth, while Pillar 2 will support Strategic Thrust 1 of the PRSP which is aimed at restoring the rule of law and good governance. Consideration of the PRSP and the *Madagascar, naturellement* Vision, the ESS and lessons learnt from past performance in the preparation of the ADF-X strategy are explained below:

4.1.2 *PRSP and the 'Madagascar, naturellement' Vision:* As indicated in Paragraphs 5.1-5.7 and Box 1, reducing the poverty rate is one of the central objectives of the PRSP and the Vision. These two major economic policy documents of the Government also recognize that the incidence of poverty is highest in rural areas mainly and that poverty reduction efforts should give priority to rural sector development. There is a high level of ownership of the PRSP and the Vision by the various components of Malagasy society, since both documents were prepared through a participatory approach that involved all Malagasy stakeholders.

4.1.3 *Economic and sector studies:* Several ESS have been conducted in Madagascar recently with the support of development partners for the purpose of increasing understanding of the determinants of poverty. The World Bank has just finalized two studies; one on the development policy review (DPR)⁵ and the other on the DPR. The Bank Group and the UNDP are currently finalizing the study on the governance profile. The DPR examined Madagascar's development policies since the 1970s and assessed the results obtained in recent years, analyzed current policies and identified possible improvements and, lastly, reviewed the medium-term prospects for Madagascar's economy and the implications on poverty reduction. On the whole, these studies stressed the need to stimulate growth in rural areas and promote good governance so that poverty reduction efforts benefit the greatest number of poor people. Furthermore, the MDG reports prepared by the Government indicate that there is only a potential chance of attaining the MDG on reduction of the poverty rate.

4.1.4 *Consultation of Malagasy Stakeholders:* While preparing the current strategy, the Bank Group organized exhaustive and intensive consultations with poverty reduction stakeholders in Madagascar. The results of these consultations highlighted the importance of rural sector development as a means of substantially reducing the incidence of poverty (see Box 3).

4.1.5 *Lessons drawn from Past Bank Performance:* The present CSP, drawn up according to the new results-based approach, is the first of its kind prepared by the Bank Group for Madagascar. Hence, the preparation of a results framework which, from the very beginning, identifies the development objectives that will be pursued, the expected impact of

⁵ See Madagascar: Development Policy Review, Sustaining Growth for Enhanced Poverty reduction, PREM I, Southern Region, Africa Region, World Bank, February 2005.

strategy implementation, the short-term results and deliverables of the Bank during the strategy implementation period as well as the strategy inputs, represents both a challenge and an opportunity for the Bank and Madagascar to forge a real partnership that will make the Bank's poverty reduction assistance more efficient. A close examination of the Bank's past performance shows that the Bank was able to contribute significantly to the attainment of the Government's rural sector objectives, notably through the Bas-Mangoky Rice-growing Area Rehabilitation Project, the National Maize Project and the Young Rural Entrepreneurs Project. The average rice yield in the Bas-Mangoky project area reached a high level of 4.35 tons/hectare compared to a national average of 2 tons/hectare. The PNM completion report shows that, despite project implementation delays, the Bank contributed to the increase in additional maize production of 25,101 tons and improvement of cultivation on 36,762 ha with an additional yield of 0.68 tons/hectare. The Bank also demonstrated its capacity to intervene successfully in the financing of infrastructure, notably roads, which contributed significantly to rural sector development. Through all these projects, the Bank is establishing positive antecedents on its capacity to be an efficient and credible actor, capable of obtaining results in the rural sector in general and in agricultural production in particular. On reforms, although it is not easy to single out the Bank's contribution, it can be stated that the rapid disbursement resources provided by the Bank Group as part of balance of payments support have contributed to macroeconomic stability. Although the Operations Evaluation Department (OPEV) of the Bank Group has not yet conducted an overall assessment of the Bank's previous assistance strategies for Madagascar, all the results show that these strategies were well oriented to support Government poverty reduction efforts, especially in rural areas.

4.2 Portfolio Management and Lessons from the Previous Strategy

4.2.1 The current portfolio comprises 12 ongoing projects which represent a total commitment of UA 136 million. The main sectors benefiting from the Bank's current financing are transport (46%), the social sector (26%), agriculture (18%), water and sanitation (6%), and the multisector (4%). According to the 2002-2003 annual portfolio performance report (APPR) of the Bank Group, its disbursements to Madagascar reached UA 17 million in 2000, UA 15 million in 2001, UA 6 million in 2002, UA 8 million in 2003 and UA 33.47 million in 2004. These figures indicate that, in 2002, disbursements to Madagascar plummeted, probably due to the political crisis that rocked the country from December 2001 to July 2002. However, since 2003, the amount of disbursements has been rising.

4.2.2 Under ADF-IX, the Bank Group approved total financing of UA 69.9 million for the following projects: (i) the fourth structural adjustment loan (UA 25 million), (ii) the road project in Toliary Province (loan of UA 31.15 million and a grant of UA 1.89); (iii) the institutional development project to promote good governance (UA 5.86 million); and (iv) the support project to control HIV/AIDS/STDs and tuberculosis.

4.2.3 According to the 2002-2003 APPR, Madagascar's portfolio performance deteriorated slightly between 2002 and 2003. The number of risky projects (RPs) in the portfolio rose from 56% in 2002 to 60% in 2003. This increase is generated by potentially problematic projects (PPPs) which surged from 11% in 2002 to 40% in 2003. With regard to problem projects (PPs), their proportion in the portfolio declined from 44% in 2002 to 20% in 2003. According to the 2004 APPR the proportion of RPs declined to 45% in 2004, mainly as a result of a fall in PPPs to 18% of the portfolio in 2004 while the proportion PPs remained relatively stable (28% in 2004 compared 20% in 2003).

4.2.4 The main message that emerges from this analysis is two-fold. On the one hand, the steady decline in the proportion of RPs since 2002 indicates that portfolio performance is improving, even if this proportion is above 35% which, according to Bank Group policies, represents the threshold beyond which the portfolio performance of a country is deemed unsatisfactory. On the other hand, the fact that PPPs dominate among the RPs indicates that, depending on the services, the majority of the projects in the portfolio should attain their development goals.

4.2.5 In March 2005, the Bank Group drew up a portfolio performance improvement plan. The report noted that the political crisis which the country experienced in 2002 and the low capacity of project executing agencies are the main causes of the deterioration of portfolio performance. Staff instability in executing agencies has also contributed to the weakening of these structures (case of the *Education III* project and the *project to repair the damage caused by cyclones Eline, Gloria, and Hudah*), as well as unfruitful results of the various invitations to bid published (*project to repair the damage caused by cyclones Eline, Gloria, and Hudah*). According to project executing agencies, the quality of Bank Group supervision has also contributed to the unsatisfactory portfolio performance. Hence, project executing agencies have cited the Bank's delays in issuing "no objection" certificates as well as the quality of the Bank's communication which has not always made things easy for them.

4.2.6 The main problem with the Bank Group's portfolio in Madagascar is the rather slow implementation rates of the different operations. Performance with regard to the submission of audit reports and quarterly status reports is satisfactory for the moment. Hence, one of the Bank's key challenges in Madagascar under ADF-X will be to substantially improve the implementation of operations so that the country can attain its development objectives more rapidly.

4.2.7 The measures taken to improve portfolio performance focused essentially on the organization of a special supervision mission during which procurement documents were processed on the field and project management reorganized (*case of the Education III project; the procurements officer was replaced ; the supervision mission of December 2004 processed about 18 procurement files on the field*) ; the restructuring of project components (*case of the project to repair the damage caused by cyclones Eline, Gloria and Hudah*) ; the preparation of a matrix of measures to be implemented, including a clear indication of the tasks to be accomplished, the deadlines and the parties concerned (*the Young Rural Entrepreneurs Project, the Bas-mangoky Farming Area Rehabilitation Project, and the Preventive Locust Control Project*). Resolute efforts were also made by the Bank Group, in collaboration with the authorities, to improve on agricultural portfolio performance. These efforts, which focused on building the capacity of project execution organs (changing of key staff members, improvement of accounting and financial management systems and preparation of procedures manuals) for the *Young Rural Entrepreneurs Project and the Bas-mangoky Farming Area Rehabilitation Project* resulted in an increase in the disbursement rates of the two projects from 17% and 16% respectively in 2004 to 40% and 60% respectively in 2005. This shows that it is possible for the Bank Group, working in collaboration with the Government of Madagascar, to obtain results in project implementation. Furthermore, the opening of a national office of the ADB Group in Madagascar, operational since August 2005, should also help to improve project supervision and consequently performance. Lastly, to increase its contribution to the improvement of portfolio performance, the Bank Group intends to conduct a portfolio review for Madagascar in 2005. This will be an opportunity to profoundly review the status of each project and all

the factors that contribute to their performance, including the performance of the Bank, the Government and other co-financers, and identify measures that can be implemented to eliminate the obstacles noted. On the basis of these measures, projections indicate that the proportion of risky projects should inch down from 45% in 2004 to 40% in 2006, while disbursement rates are expected to rise sharply from 24% in 2004 to 53% in 2006.

4.3 Results Framework

4.3.1 The results framework is aimed at clearly identifying the outcomes expected from Bank assistance during the ADF-X period, based on the priorities of the Government of Madagascar. The results framework of the present strategy identifies the long-term objective, directly linked to the global objectives of the PRSP and *Madagascar, naturellement* Vision, to which the Bank will contribute, one medium term result and two short-term results. The results framework also identifies eight deliverables or services of the Bank that will make it possible to attain identified results, as well as the performance indicators that will be used to measure attainment of its various elements.

4.3.2 The broad-based consultations between the Bank Group and Malagasy stakeholders led to the conclusion that the long-term development objective of Madagascar that the CSP will seek to attain is the reduction of the poverty rate. Indeed, Madagascar intends to act in conformity with the MDGs to which it adhered, by reducing the poverty rate from 73.6% in 2003 to 36.8% in 2015. Recognizing that the incidence of poverty is highest in rural areas, the Government's strategy to attain the goal of halving the poverty rate by 2015 is to give priority to rural development. Hence, in a bid to contribute efficiently to the attainment of this goal, the strategy's medium-term result will be to increase agricultural and fish production in rural areas south of the country so as to help raise rural incomes and reduce the rate of rural poverty. Two short-term results are expected from implementation of the strategy: (i) consolidation of the incentive framework in order to boost agricultural production, and (ii) improvement of governance in rural sector management. Figure 1 below presents the CSP results framework for 2005-2009, which is explained in detail in the thematic matrix presented in Table 2. Given Madagascar's insufficient capacity, capacity-building will be a crosscutting theme in all the Bank's interventions during the CSP period.

Figure 1: Madagascar: Illustrative Results Framework for 2005-2009

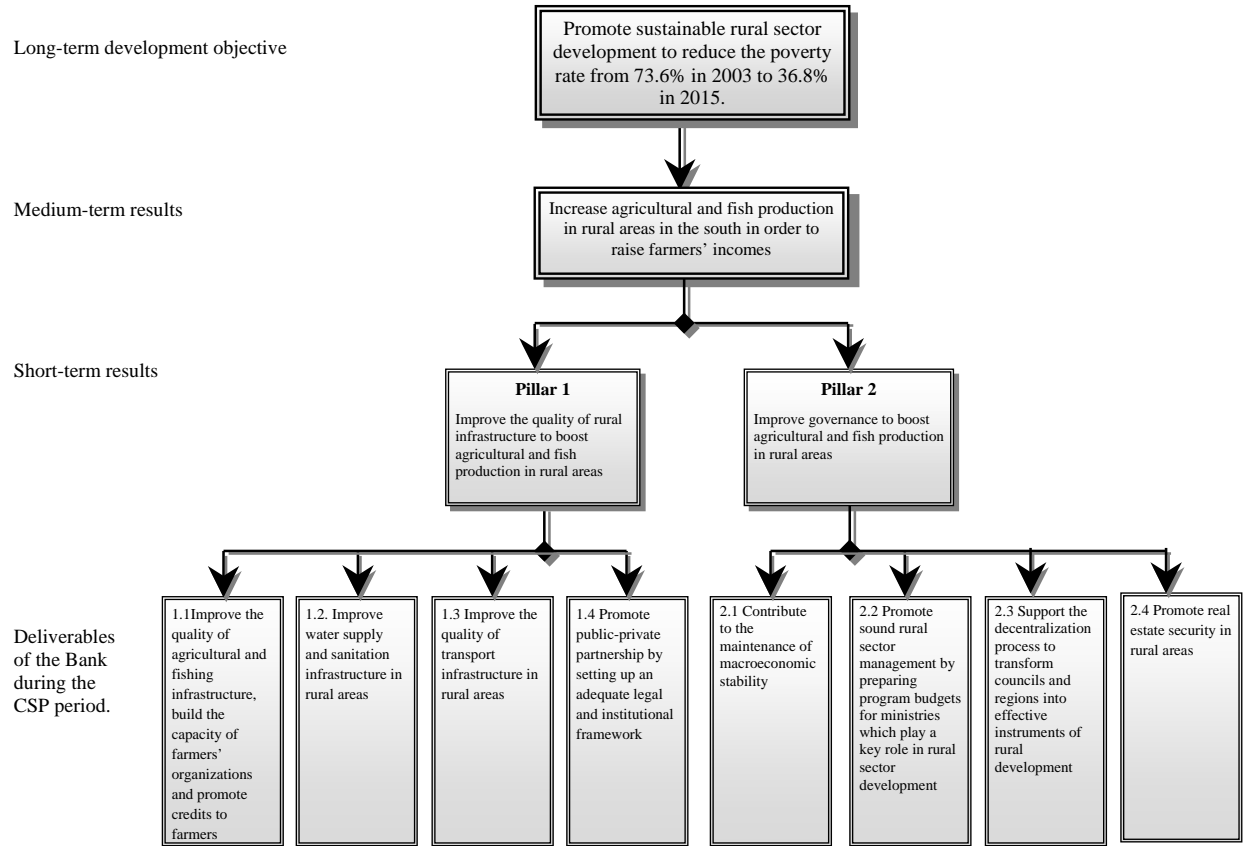


Table 2: Matrix of Thematic Outcomes

Long-term development goal of the Madagascar Gov't which the CSP seeks to influence	Government Strategy	Medium-term CSP Outcomes for the Country				Bank Priorities and performance		
		Sectoral Constraints	Medium-term CSP Outcomes	Intermediate indicators for monitoring CSP outcomes	Strategy/actions for attaining intermediate indicators	Deliverables of the Bank	Bank and Partner Interventions	Bank Performance Measurement Indicators
Reduce the poverty rate from 73.6% in 2003 to 36.8% in 2015	1. Promote rural development	<p>1.1 Poor quality of agricultural, fish and transport infrastructure in rural areas</p> <p>1.2. Limited human capital of farmers, partly due to poor health attributed to limited access to potable water and sanitation</p> <p>1.3 Weak farmers organizations</p> <p>1.4 Insufficient credit for farmers</p>	<p>Annual fish production rises to 3,000 tons and 800 tons of octopuses from 2009⁶</p> <p>Additional rice production in the Bas-mangoky farming area reaches 35,000 tons from 2008</p> <p>Additional cotton and food crop production in Manombo reaches 4,200 tons and 4,500 tons respectively in 2010⁷</p> <p>The access rate to potable water in rural areas rises from 17% in 2005 to 22% in 2007, and the access rate to sanitation facilities in rural areas rises from 9% to 11% for the same period</p>	Additional rice production in the Bas-mangoky farming area reaches 25,000 tons in 2007	<p>1. Improve the quality of rural infrastructure to boost agricultural and fish production in rural areas</p> <p>2. Strengthen farmers' organizations</p> <p>3. Promote credit to farmers</p>	<p>1.1 Improve the quality of agricultural infrastructure in the farming areas of Bas-mangoky and Manombo; strengthen farmers' organizations and promote credit to farmers.</p> <p>1.2 Improve water supply and sanitation infrastructure in rural areas</p> <p>1.3 Improvement of strategic transport infrastructure to boost rural development (RN1bis, RN6, RN34, RN35, Study on RN9)</p> <p>1.4 Strengthen farmers' organizations, notably in the areas of marketing and promotion of credits to farmers</p> <p>1.5 Promote public-private partnership</p>	<p><u>New projects proposed by the Bank Group</u></p> <p>1. Support project for Tuléar fishing communities</p> <p>2. Integrated rural dev't project for the Manombo farming area</p> <p>3. Rural water supply and sanitation program</p> <p>4. Road project</p> <p><u>Ongoing Bank Group projects</u></p> <p>See Table 4.</p> <p><u>Other active partners in the rural development sector</u></p> <p>World Bank European Union France Japan UNICEF UNDP</p>	<p>Support project for Tuléar fishing communities Presented to the Board in 2005</p> <p>Integrated rural dev't project for the Manombo farming area presented to the Board in 2007</p> <p>Disbursement rate of current portfolio reaches 50%</p> <p>Rural water supply and sanitation program presented to the Board in 2005</p> <p>Road project presented to the Board in 2008</p> <p>All these new operations are prepared following the results-based approach.</p>

⁶ The reference level for this indicator is a maritime production of 107,206 tons in 2003 (Source: MEFB, 2003-2004 Economic and Financial Report, Page 49).

⁷ The reference levels for these indicators are a cotton yield of 8,162 tons in 2002-2003 (Source : MEFB, 2003-2004 EFR, Page 43), and a food crop yield (rice, cassava, maize, lima beans) of 633,436 tons for the 2002-2003 crop year in the Province of Tuléar, one of the geographical areas where Bank Group interventions will take place. Source: MAEP, Annual Agricultural Production Survey, 2002-2003 crop year, Main report. These indicators will be further fine-tuned during preparation of planned new interventions and during mid-term review of the strategy.

Table 2: Matrix of Thematic Outcomes (cont'd and end)

Long-term Development Goal of the Madagascan Gov't which the CSP seeks to influence	Government Strategy	Medium-term CSP Outcomes for the Country				Bank Priorities and Performance		
		Sectoral Constraints	Medium-term CSP Outcomes	Intermediate indicators for monitoring CSP outcomes	Strategy/actions for attaining intermediate indicators	Deliverables of the Bank	Bank and Partner Interventions	Bank Performance Measurement Indicators
Reduce the poverty rate from 73.6% in 2003 to 36.8% in 2015	1. Promote rural development	<p>1.1 Stability of the macroeconomic framework</p> <p>1.2 Poor management of resources allocated to the rural sector</p> <p>1.3 Transform councils and regions into rural dev't actors within the framework of the decentralization policy</p> <p>1.4 Real estate insecurity</p>	<p>Annual fish production increases by 3000 tons of fish and 800 tons of octopuses by 2009</p> <p>Additional rice production in the Bas-mangoky farming area exceeds 35,000 tons from 2008</p> <p>Additional cotton and food crop production in Manombo reaches 4,200 tons and 4,500 tons respectively from 2010</p> <p>Access to potable water in rural areas rises from 17% in 2005 to 22% in 2007, and the access rate to sanitation facilities in rural areas rises from 9% to 11% for the same years.</p>	Additional rice production in the Bas-mangoky farming area reaches 25,000 tons in 2007	2. Improve governance by helping to raise agricultural and fish production in rural areas	<p>2.1 Contribute to the maintenance of macroeconomic stability</p> <p>2.2 Prepare program budgets for ministries which play a key role in rural development, that give consideration to rural sector strategic priorities</p> <p>2.3 Support the privatization process so that councils and regions can become effective instruments of rural development</p> <p>2.4 Promote real estate security in the Bas-Mangoky and Manombo farming areas</p>	<p><u>New projects proposed by the Bank Group</u></p> <p>Governance policy-based loan</p> <p>Integrated rural development project for the Manombo farming area</p> <p><u>Ongoing Bank Group Projects</u></p> <p>PRIBG Integrated rural development project for Bas-Mangoky PROJER</p> <p><u>Other active partners in the rural development sector</u></p> <p>World Bank European Union France Japan UNICEF UNDP</p>	Policy-based project presented to the Board in 2006

4.4 Pillars and Areas of Focus

Pillar 1: Improving the quality of rural infrastructure to boost agricultural and fish production in rural areas in the south (Result 1)

4.4.1 This pillar supports Strategic Thrust 2 of the PRSP which is aimed at stimulating and promoting broad-based economic growth. Through this pillar, the Bank intends to help the Government of Madagascar to improve the quality of rural infrastructure in order to boost agricultural and fish production in rural areas in the south which, as indicated in Paragraph 2.5.2, is home to 39.7% of the country's 12.2 million poor. The deliverables of the Bank that will make it possible to address the above-mentioned constraints and attain result 1 are analyzed below.

4.4.2 *Improve the quality of agricultural and fishing infrastructure (Deliverable 1.1):* The Bank has relevant experience in Madagascar's agricultural sector that makes it well placed to contribute efficiently to the development of community irrigation infrastructure, participatory development and institutional strengthening for organizations of beneficiaries. The Bank will pursue its actions in this sector with a view to consolidating the emerging positive effects of its previous interventions (see Paragraph 4.1.5), and carrying the Bank's action further. The key instruments of the Bank that will facilitate realization of Deliverable 1.1 are the Project for Supporting the Fishing Communities in Tuléar that will be presented to the Board in 2005 and Manombo Integrated Rural Development Project to be presented to the Board in 2007. Efforts will also be made to speed up implementation of the current portfolio (Paragraph 4.6.3), which contributes to rural sector development, including the Bas-mangoky Farming Area Rehabilitation Project and PROJER.

4.4.3 *Improve water supply and sanitation infrastructure in rural areas (Deliverable 1.4):* As already indicated, the improvement of water supply and sanitation services is the priority in all efforts to ensure rural development and boost agricultural production. Indeed, access to potable water and sanitation facilities has positive effects on health, which is the very first production factor for farmers. The Bank, in collaboration with other partners, will support Government efforts to improve access to potable water and sanitation in rural areas. The key instrument needed to attain this result will be the rural water supply and sanitation program to be presented to the Board in 2005, which is part of the ADB-led initiative to improve access to potable water and sanitation services.

4.4.4 *Improve strategic transport infrastructure to promote rural development (Deliverable 1.5):* The quality of transport infrastructure is crucial to rural sector development and to the boosting of agricultural and fish production in particular. This observation, drawn from long-standing poverty reduction experience, is equally valid for Madagascar. Hence, the PRSP devotes its Roads and Transport sub-program to the improvement of access for rural communities and maintenance of the entire road network. The strategy proposed here is aimed at helping the Government to implement this program. To attain this result, the Bank will concentrate on accelerating the implementation of the *Toliar Province Road Project approved by the Boards in October 2004, the RN 1 bis Rehabilitation Project approved in September 2002, the Cyclone Damage Repair Project approved in October 2000 (see Paragraph 4.6.3)*. The Bank Group will also ensure completion of the *RN9 Study* after which a road project to improve rural road infrastructure will be presented to the Board in 2008. RN9 is crucial to the success of the strategy proposed in this report since it connects the intervention areas of the fisheries project, the Bas-Mangoky and Manombo farming areas to the Tuléar Port.

Pillar 2: Improving governance to boost agricultural and fish production in rural areas in the south (Result 2)

4.4.5 Contribute to the maintenance of macroeconomic stability (Deliverable 2.1) : Beyond the constraints that are specifically linked to prevailing conditions in the rural sector, the maintenance of macroeconomic stability seems to be one of the conditions necessary for promoting rural sector development through increased production. This fact, validated in global experience, is equally valid for Madagascar. That is why Malagasy stakeholders have retained macroeconomic stability as one of the fundamental objectives of the PRSP. The Bank intends to help the Government attain this objective during the current CSP period, especially in a context where the events of 2004 (see Paragraph 2.2.4) have amply demonstrated that all stakeholders ought to remain vigilant and that the Bank Group has to stand ready to devote part of its resources to support macroeconomic stability. In this area, the Bank will work closely with the other development partners, notably the Bretton Woods institutions. Since rapid disbursement resources are an appropriate instrument for attaining the goal of macroeconomic stability, the present strategy envisages resorting to a policy-based loan, in the form of budget support, to back Government efforts to maintain macroeconomic stability. This policy-based loan will be presented to the Board in 2006.

4.4.6 Prepare program budgets (Deliverable 2.2): To create the right conditions for sustained rural sector growth, State budget management has to be done following a results-based approach which clearly identifies rural sector development as one of the missions of the State under its poverty reduction policy. This approach, within the framework of the budget reform that led to the introduction of program budgets from the 2005 fiscal year, entails identifying programs and actions that contribute to the realization of this mission, as well as the corresponding performance indicators. Furthermore, Malagasy stakeholders retained improvement of the management of the human and financial resources allocated to the rural sector and the improvement of rural sector management through the drafting of sub-sectoral policies and strategies, as one of the specific strategies of the PRSP. It is in this context that the Bank Group will, at the behest of the Malagasy authorities, lend assistance in the preparation and implementation of program budgets. Hence, the Bank Group will help the Government of Madagascar to successfully introduce program budgets and prepare program budgets for ministries that play a key role in rural development and which give consideration to the strategic needs of the sector. These are the Ministry in charge of agriculture, livestock and fisheries; the Ministry of Energy and Mines; the Ministry of Justice; the Ministry of the Economy, Finance and the Budget; and the Ministry of Population, Social Protection and Entertainment. The key instrument needed to attain this result is the PRIBG approved on 8 December 2004.

4.4.7 Support the decentralization process (Deliverable 2.3): Promoting rural growth and poverty reduction starts with the effective implementation of the decentralization process which gives councils and the regions a leading role in the identification of local development priorities. The Government has already embarked on this path and the Bank Group will help it to ensure the efficiency of the decentralization process. The main instrument for attaining this result will be the governance policy-based loan to be presented to the Board in 2006 and which will target actions aimed at speeding up the decentralization process. The Bank Group will also fall back on the PRIBG to build the capacity of the Ministry in charge of decentralization in the area of program budgets. Table 3 below illustrates the CSP framework.

4.4.8 Promote real estate security in rural areas (Deliverable 2.4): To promote rural sector development and boost agricultural production in particular, there is need to provide a lasting solution to the problem of real estate insecurity. In a bid to address this problem, the Government appealed for assistance to its development partners, including the United States, within the framework of the Millennium Challenge Account (MCA), France and the Bank Group. The Bank is already intervening to promote land tenure security within the framework of ongoing agricultural projects such as the Young Rural Entrepreneurs Project. The Bank will continue with such support to the promotion of land tenure security. The main instrument for realizing this support will be the inclusion of a component on real estate security in the Manombo Integrated Rural Development Project, to be presented to the Board in 2007, and the pursuit of land tenure security activities under the Bas-Mangoky Farming Area Rehabilitation Project and PROJER.

Table 3: CSP Results Framework

Long-term development goal: Reduce the poverty rate from 73.6% in 2003 to 36.8% in 2015	Expected CSP outcomes (3 to 5 years)	Links to the PRSP
Pillar 1: Improving the quality of rural infrastructure to boost agricultural and fish production in rural areas	<p>Additional rice production in the Bas-mangoky farming area reaches 35,000 tons from 2008</p> <p>Annual fish production increases by 3,000 tons of fish and 800 tons of octopus by 2009</p> <p>Additional cotton and food crop production in Manombo reaches 4,200 tons and 4,500 tons respectively from 2010</p> <p>Access to potable water in rural areas rises from 17% in 2005 to 22% in 2007, and the access rate to sanitation facilities in rural areas rises from 9% to 11% for the same years.</p>	Strategic thrust 2 of the PRSP. PRSP Update Report, June 2005, Pages 8 and 53.
Pillar 2: Improving governance to boost agricultural and fish production in rural areas	<p>Contribution to macroeconomic stability</p> <p>Program budgets prepared for ministries that play a key role in rural development which give consideration to the strategic priorities of this sector</p> <p>Support to the decentralization process</p> <p>Promotion of land tenure security</p>	Strategic Thrust2 of the PRSP. PRSP Update Report, June 2005, Pages 50, 51, 52, 55 and .56

4.5 Regional Dimensions of the Strategy

As indicated in Paragraph 2.4.3, Madagascar participates actively in the integration and economic cooperation efforts deployed in the Indian Ocean sub-region and beyond. In line with the mandate and Vision of the Bank Group, and the 2003-2007 Strategic Plan, the strategy proposed in this report will help Madagascar's regional integration efforts in two ways. First of all, the sustainable development of agricultural production should provide this country with the means to increase its participation in regional trade. Indeed, according to Malagasy authorities, there is an unsatisfied regional demand for agricultural products from Madagascar at the moment. Secondly, the Bank Group, at the request of the Government, plans to conduct a study to identify trade expansion opportunities between Madagascar and its regional partners, as well as Madagascar's capacity-building needs in the management of regional integration issues.

4.6 Bank Group Assistance: Performance-Based Resource Allocation, Performance Benchmarks and Bank Group Operations

Performance-based allocation and performance benchmarks

4.6.1 On the basis of the country evaluation performance for 2004, the maximum allocation to which Madagascar is eligible over the three years of ADF-X is UA 100.08 million in the form of loans. According to the results of the country's debt burden analysis, Madagascar will only be eligible to ADF-X loans. Although the amount for commitments in the first year will be firm, the projections for the second and third years will depend on (i) the performance of the country, (ii) the resources still available under ADF-X, (iii) the list of countries eligible to the ADF assets window, and (iv) the composition of the Bank Group's financial assistance to Madagascar in terms of grants and loans.

4.6.2 Hence, under ADF-X, the level of Bank Group assistance will depend on (i) the country's allocation as determined by the annual country performance evaluation, and (ii) Madagascar's performance in relation to a certain number of benchmark indicators. On the basis of the 2004 performance evaluation, Table 4 below presents the benchmark performance indicators that will determine Madagascar's benchmark performance under ADF-X. These criteria are drawn from Madagascar's performance evaluation in 2005 which revealed that the country's performance was least satisfactory in the area of governance. The evaluation also showed that Madagascar's portfolio performance was also unsatisfactory. That is why the performance criteria was selected in collaboration with the Government in order to improve the country's performance in key poverty reduction areas like governance and Bank Group portfolio performance.

Table 4: ADF-X Benchmark Indicators

Portfolio Performance	Disbursement Rate
1. Disbursement rate of Health Project II	50%
2. Disbursement rate of the WSS Project in the Grand South	60%
3. Disbursement rate of the Communicable disease & HIV/AIDS Control Project	30%
4. Good Governance Institutional Development Project	20%
5. Progress in the installation and use of the project management software in the Public Debt Department and in project implementation units financed by the ADF	Satisfactory
6. Disbursement rate of the Young Rural Entrepreneurs Project	60%
Good governance	Progress in reform implementation
1. Installation and use of the SIGTAS software in the Taxation Department of Major Corporations	Satisfactory
2. Implementation of program budgets	Satisfactory
3. Installation and use of the ASYCUDA software in the major customs offices	Satisfactory

Lending activities

4.6.3 The Bank Group's assistance program for Madagascar during ADF-X will focus on (i) the current portfolio whose implementation will be enhanced, and (ii) four new operations that will be presented to the Board between 2005 and 2007 and a new operation to be presented to the Board in 2008 under ADF-XI. Table 5 below presents current portfolio operations and their alignment to the three Strategic Thrusts of the PRSP. Apparently, the current portfolio is well aligned on the strategic priorities identified in the PRSP. About 69% of the current portfolio supports Strategic Thrust 2 which is aimed at stimulating and promoting broad-based growth. About 26% of the current procedure supports Strategic Thrust 3 which is aimed at stimulating and promoting human, material and broad-based social protection security systems and 4% of the current portfolio supports Strategic Thrust 1 which is aimed at restoring the rule of law and promoting good governance. The strategy proposed in ADF-X will pursue this orientation by giving priority to actions aimed at promoting growth especially in rural areas. During ADF-X, efforts will be made to speed up the implementation of current portfolio operations.

Table 5: Alignment of Current Portfolio with PRSP (Situation as of 14 July 2005)

Strategic Thrusts of the Poverty Reduction Strategy	Portfolio Projects (year of approval and amount of loan or grant in UA million) ; disbursement rates
<u>Strategic Thrust 1.</u> Restore the rule of law and good governance	1. <i>Good Governance Institutional Building Project (Dec. 04; 5.86). Disbursement rate 0%.</i>
<u>Strategic Thrust 2.</u> Stimulate and promote broad-based economic growth	2. <i>Road Maintenance And Rehabilitation Project (May 90; ADF: 6.49; NTF: 6.00). Disbursement rate: (ADF: 51%; NTF: 37%)</i> 3. <i>Cyclone Damage Repair Project (Oct. 00; 6.52). Disbursement rate: 0%</i> 4. <i>RNI bis Rehabilitation Project (Sept. 02; Loan 10, Grant 0.23): Disbursement rate: 0%.</i> 5. <i>Toliary Province Road Project (July. 04; loan 31.15; grant 1.89). Disbursement rate: 0%.</i> 6. <i>Young Rural Entrepreneurs Program (Nov. 98; 7.35). Disbursement rate 41%.</i> 7. <i>Bas-mangoky Farming Area Rehabilitation Projects (Oct. 99; 10,00). Disbursement rate:60%</i> 8. <i>Preventive Locust Control Project (March 01; ADF: 5.76; Grant: 1.16). Disbursement rate: (ADF: 9%; Grant: 6%).</i> 9. <i>Water Supply and Sanitation Project in the Grand South (Nov. 01; 7.93). Disbursement rate: 3%.</i>
<u>Strategic Thrust 3.</u> Stimulate and promote human, material and broad social protection systems	10. <i>Education III (Dec. 98; ADF: 16; Grant: 0.5). Disbursement rate: (ADF: 3%; Grant: 1%).</i> 11. <i>Health II (July 99; ADF: 12.44; Grant: 0.75). Disbursement rate: ADF: 8%; Grant: 50%.</i> 12. <i>Communicable Diseases, HIV/AIDS/STD & Tuberculosis Control Support Project (Dec. 04; 6). Disbursement rate: 0%</i>

4.6.4 Hence, to consolidate the impact of the current portfolio, four new operations shall be prepared and presented to the Board between 2005 and 2007 for approval under ADF-X. These are: (i) the potable water supply and sanitation program in rural areas in 2005, (ii) the Tuléar Fishing Communities Support Project in 2005, (iii) the governance policy-based project in 2006, and (iv) the Integrated Rural Development Project in the Manombo farming area in 2007. These operations shall be implemented under sectoral programs designed and

implemented by the Government with the support of development partners. These are the Rural Development Action Plan (RDAP), the Sectoral Strategy and Action Plan (SSAP) for water and sanitation adopted in 1994, the Water and Sanitation Policy Declaration of 1997, the macroeconomic framework prepared in collaboration with the Bretton Woods institutions and the decentralization/deconcentration policy. A road project will be presented to the Board in 2008 under ADF-XI. The Bank Group will also work closely with the other development partners notably the World Bank, the EU and Japan for the water supply and sanitation program; the World Bank, EU, France and the IMF for budget support; and the World Bank and the EU in the case of agricultural sector interventions.

4.6.5 The strategy proposed also envisages presentation to the Board of a governance policy-based loan. Indeed, the PRSP identifies governance as Strategic Thrust 1 among poverty reduction efforts. Furthermore and in accordance with the conclusions of the governance profile which is being finalized, the Government of Madagascar has adopted a set of reforms aimed at improving governance in order to enhance the effectiveness of poverty reduction efforts. This assistance which will be given in the form of budget support shall be coordinated closely with other development partners that are members of the Partnership Framework, notably the World Bank, the European Union and France⁸, which is already using budget support to provide part of its assistance to Madagascar. The main aim will be to improve the functioning of the judicial system. The governance profile effectively noted that it is one of the areas of governance which still has the greatest number of problems. The results indicators of this operation include the publication of court judgments, the dissemination of judicial texts and the reduction of deadlines for the processing of judicial files.

4.6.6 Recourse to budget support to back governance reforms takes into account the progress made by Madagascar, with the support of development partners to improve public finance management procedures and curb fiduciary risk. These efforts were based on the country procurement assessment report (CPAR) and the country financial accountability assessment (CFAA) prepared in June 2003 with World Bank support. The new public procurement legal and institutional framework adopted by parliament in July 2004 took into consideration the recommendations made by the CPAR. Similarly, measures were taken to reinforce public finance control in response to CFAA recommendations. In a bid to back Madagascar's efforts to further reduce fiduciary risk, the Bank Group participates with other partners like the World Bank, the EU and France, within the framework of PRIBG, to build national capacity in the important area of public finance. Furthermore, the Government and development partners (World Bank, European Union, France) have set up an efficient development framework to coordinate their interventions in the area of budget support. The Bank Group, which has hitherto participated in this process as observer, intends to become a member of this Partnership Framework very soon. The IMF participates in the partnership framework as observer.

Technical assistance and consultancy activities

4.6.7 Considering that limited capacity is one of the major constraints of poverty reduction in Madagascar, the Bank Group will continue with its technical assistance and capacity building activities for the country. The main framework for these efforts will be the PRIBG whose implementation will be stepped up in order to have an impact on capacity-building in the area of public finance management (preparation of program budgets), private sector development and improvement of the functioning of the justice system. Furthermore,

⁸ The IMF participates in the Partnership Framework as observer.

the governance profile study which is being finalized will provide the analytical material for dialogue with the Government on governance issues. Lastly, a study will be conducted on trade opportunities offered to Madagascar by various regional integration and cooperation structures. This study will also provide the analytical framework for dialogue on regional integration issues. Lastly, the RN9 study approved in October 2004 will be finalized to serve as a framework for the Bank's future interventions in the transport sector.

Private Sector Strategy

4.6.8 The objective will be to create the right conditions for tapping private sector potential, notably in the promotion of employment. In the consolidation of the general institutional framework, special attention has to be paid to private sector participation in infrastructure investments, structures intervening to support the private sector in general and small businesses in particular, notably with regard to consolidation of the financial sector and support to the development of micro-finance. The Bank will also look for investment opportunities that can be financed by the private sector window notably in the sub-sectors like finance, electrical energy, renewable energy and support to small and medium-sized enterprises. Box 5 below analyses the participatory process implemented by the Bank Group during preparation of the strategy proposed here.

4.6.9 The Bank Group will also support the preparation of an adequate legal and institutional framework to promote public-private partnership in the development of infrastructure, notably in the transport sector (Result 1.4). This approach is in line with Government policy which makes public-private partnership one of the specific objectives of the 'Private Sector Development and Revitalization Program' of the PRSP. It is also in line with Bank Group strategy on private sector development, which gives priority to various forms of the PPP as a means of promoting infrastructure development in regional member countries. The Bank's instrument for supporting the preparation of the PPP legal and institutional framework will be the PRIBG approved by the Board in December 2004. Under this project, the Bank will provide technical assistance to the Government to prepare and institute an adequate legal and institutional framework for stimulating public-private partnership.

Box 5: Participatory Approach in CSP Preparation

The present CSP was prepared following a participatory approach that required the contribution of all poverty reduction stakeholders in Madagascar. The consultations that the Bank Group had with the stakeholders were held from 14 February to 8 March 2005 and from 30 May to 3 June 2005. The missions had very fruitful discussions with several ministers and top ranking officials in charge of economic programs at the Presidency of the Republic, National Assembly, Senate, Prime Minister's Office, the Ministry of the Economy, Finance and the Budget (MEFB), the Ministry of Justice, the Ministry of Population, the Ministry of Public Service, the Ministry in charge of private sector development, the Secretariat of State in charge of decentralization, the Central Bank of Madagascar and the Technical Secretariat for Adjustment. The missions also held discussions with development partners, civil society organizations and private sector representatives. These consultations confirmed the capital importance that Malagasy stakeholders give to rural sector development in their poverty reduction efforts.

The last phase of consultations with Malagasy stakeholders on the present strategy was held within the framework of a seminar on the governance profile and validation of the ADF-X intervention strategy jointly organized by the Government and the World Bank from 10-11 August 2005 at Hilton Hotel Madagascar. During this seminar, the governance profile was examined on 10 August 2005 and the CSP on 11 August 2005. Mr. Benjamin Andriamparany Radavidson, Minister of the Economy, Finance and the Budget officially opened the seminar on 10 August 2005 and officially closed it on 11 August 2005. About 80 participants representing the Government, the private sector, civil society and development partners attended the seminar.

The seminar validated the 2005-2009 CSP for Madagascar under ADF-X. Participants validated the analysis of Madagascar's context, the Government's development program and medium-term prospects, the Bank Group's 2005-2009 results-based assistance strategy and the monitoring/evaluation system as presented in CSP 2005-2009. As concerns the Bank Group strategy, participants recommended that planned interventions, notably as concerns program budgets, be closely coordinated with other development partners active in Madagascar, and that interventions aimed at boosting agricultural and fish production should also make provision for assistance to build the capacity of farmers in marketing and product standardization. It is also recommended that support aimed at promoting real estate security be implemented under the National Land Program which is the main framework set up by the authorities to improve land management in the country. Participants also indicated that the PNM had a sustainable impact, but that there is need to pursue micro-credit activities in order to enhance such sustainability. All these suggestions and those aimed at updating some of the information contained in the report were taken into account in the finalization of the present strategy. Lastly, participants indicated that one of the key determinants of the sustainability of Bank Group interventions in general is the effective involvement of supervisory ministries in the life of projects.

4.7 Partnership and Harmonization

4.7.1 The coordination of aid to Madagascar will be reinforced through preparation of the *'Partnership framework between the Government and development partners with a view to harmonizing budget support.'* The Partnership Framework which is currently composed of the World Bank, the European Commission and France has just been finalized and signed by these partners and the Government of Madagascar. The goal of this Partnership Framework is to (i) harmonize the processes and procedures of partners and minimize operating costs ; (ii) step up dialogue between the Government and development partners in order to link the financing commitments of the latter with the Government's development priorities as outlined in the PRSP ; (iii) increase the predictability of budget support flows from partners, in terms of schedule and amounts ; (iv) improve the alignment of budget support programs with national processes ; and (v) enhance coordination of support to capacity-building. The Bank Group intends to become a member of this Partnership framework and this will result in the harmonization of Bank Group interventions with those of other development partners and also promote the alignment of Bank Group operations on Malagasy national systems.

4.7.2 There are also other aid coordination mechanisms in Madagascar, such as the *Meeting of Friends of Madagascar* whose most recent session was held in November 2003 in Paris, and thematic groups of development partners that meet periodically in Madagascar. The heads of UN bodies also meet regularly to coordinate their activities. The Bank Group maintains regular consultations with most development partners present in Madagascar. This is going to be reinforced with the opening of the country office of the Bank Group planned for August 2005.

V. RESULTS-BASED MONITORING AND EVALUATION

5.1 Monitoring of Outcomes and Bank Performance

Although the Government's capacity to produce the necessary statistical indicators for monitoring implementation of the strategy proposed here needs to be strengthened, it should be noted that progress has been made. Hence the monitoring indicators of CSP outcomes will be drawn from PRSP implementation statistics published by INSTAT, and from statistics published by the Ministry of Agriculture, Livestock and Fisheries, and the ministry in charge of water. Indeed, thanks to the currently well-established collaboration with the Technical Secretariat for Adjustment (TSA) responsible for monitoring PRSP implementation, the Directorate General of Planning and other national institutions, INSTAT henceforth publishes updated data on poverty incidence and intensity trends at the national and provincial levels of the country. The MALF conducts an annual survey on agricultural production which provides information on farm holdings, farming methods, food crop and export crop yields, and producer prices in the six provinces and the prefectures of the country. These statistics will be especially useful for monitoring agricultural production in the southern part of the country, which is one of the expected medium-term results of the Bank's strategy. Several development partners, including the World Bank and the European Union, are building the Government's capacity to monitor PRSP implementation. The Bank's performance will be measured through design of the operations planned in the strategic framework. A mid-term review of the CSP will take place in 2007 to assess implementation of the strategy.

5.2 Risk Management

5.2.1 The maintenance of political stability is crucial to the success of the strategy proposed in this report. Indeed, since the advent of the democratic process in Madagascar in the early 1990s, successive changes of political regimes in the country have taken place in a climate of crisis mainly attributed to the tension between the political parties in power and those in the opposition. These tensions reached their climax after the presidential elections of 2001, blocking the country for several months, seriously undermining economic performance and retarding progress in poverty reduction. The next presidential and legislative elections will take place in 2007, and as these events approach, the relative political stability enjoyed by the country since the end of the last crisis needs to be consolidated so that it can concentrate its efforts on the difficult task of poverty reduction. In this political domain, the Bank will work through the action of other partners whose mandate specifically covers dialogue with political institutions.

5.2.2 The other risks relate to poor capacity and the occurrence of natural disasters caused by cyclones. To address the first risk, the Bank Group will continue to lay emphasis on capacity-building in all operations and the national office will play a proactive role in anticipating and mitigating such risk. As concerns cyclones, the Government is currently modernizing its early warning system. During updating of the PRSP in June 2005, Malagasy stakeholders identified this risk as a crosscutting theme in all Government policies.

5.3 Country Dialogue Issues

5.3.1 *Governance*: The resolution of the different governance problems noted in Madagascar requires dialogue between the Government and development agencies, notably the ADB. On the basis of Madagascar's performance as evaluated in 2005 under EPIP, the governance issues on which dialogue with the country will focus concern the definition of a real tax policy and the performance of the tax administration, improvement of the performance of the customs administration, legal and judicial reforms and private sector development.

5.3.2 *Rural Development Policies*: Rural sector development should also constitute an important area in the dialogue between the Bank Group and Madagascar. Given the rural sector development constraints identified during preparation of the present strategy, dialogue will in priority focus on the following issues: (i) the identification, in program budgets, of rural development as one of the priority missions of the State, implying that appropriate programs and performance indicators be associated with this mission; and (ii) the implementation of land reform and the decentralization process.

5.3.3 *Portfolio Management*: The Bank's portfolio performance in Madagascar should continue to occupy a central place in the dialogue with the country. Indeed, there is a considerable time overrun in the implementation of most of the projects funded by the Bank Group and this has a negative impact on their contribution to national poverty reduction efforts.

VI. CONCLUSION AND RECOMMENDATION

6.1 Conclusion

The current high incidence of poverty among the population is a major problem that Madagascar must address in the years ahead. Although the country has substantial assets to tackle this difficult and complex problem, it still faces many challenges that need to be met. The aim of the proposed strategy is to helping Madagascar use opportunities to increase the incomes of poor farmers so as to reduce rural poverty, while coping with the risks caused by the international environment.

6.2 Recommendation

The Boards of Directors are invited to approve this Results-Based Country Strategy Paper prepared for the Republic of Madagascar for the period covered by ADF-X, with an indicative allocation of UA 100.08 million in the form of loans.

Annex 1: Map of the Republic of Madagascar



Annex 2: Bank Group operations (situation as of 14 July 2005)

Sector / Project	Approval Date	Signature Date	Net amount of loan / grant	Amount disbursed	Undisbursed Amount	Disbursement (%)	Status
Agriculture							
Analaiva Sugar Project Phase II (ADB)	15-Mar-83	11-April-83	16 461 690.56	16 461 690.56	0	100%	Completed
Anacardes Agro-industrial Complex (ADB)	15-Dec-83	08-Mar-84	8 606 087.97	8 606 087.97	0	100%	Completed
Oil palm tree Agro-industrial Complex (ADB)	12-Dec-84	09-May-85	2 650 624.09	2 650 624.09	0	100%	Completed
Rice cultivation rehabilitation studies (grant)	19-Nov-84	15-Dec-84	300 124.64	300 124.64	0	100%	Completed
Rice field irrigation scheme	16-Aug-77	23-Sept-77	4 633 157.70	4 633 157.70	0	100%	Completed
Rice cultivation II (ADF)	30-Oct-81	14-Dec-81	9 091 046.21	9 091 046.21	0	100%	Completed
Oil palm tree Agro-industrial Complex	17-Dec-84	09-May-85	5 553 611.68	5 553 611.68	0	100%	Completed
Rehabilitation Basse Betsiboka rice growing areas (ADF)	27-May-88	28-May-89	10 817 634.82	10 817 634.82	0	100%	Completed
National maize project (ADF)	18-April-89	28-May-89	6 323 111.18	6 268 946.80	54 164.38	99%	Completed
Tsribihina irrigation scheme I (ADF)	26-June-87	03-Mar-88	9 756 455.23	9 756 455.23	0	100%	Completed
Institutional support to DPRA (GRANT)	29-Oct-91	13-May-92	9 671 046.00	9 671 046.00	0	100%	Completed
Dairy production in 10 urban centers (ADF)	29-Oct-91	13-May-92	7 230 000.00	7 230 000.00	0	100%	Completed
Young rural entrepreneurs project (ADF)	12-Nov-98	17-Dec-98	7 350 000.00	3 030 665.67	4 319 334.33	41%	Ongoing
Environmental program phase I (ADF)	24-Aug-92	12-Jan-93	11 050 000.00	11 050 000.00	0	100%	Completed
Bas-mangoky farming area rehabilitation project (ADF)	20-Oct-99	17-Dec-99	10 000 000.00	5 985 048.98	4 014 951.02	60%	Ongoing
DIR. Institutional Reform Project (GRANT)	23-Aug-89	28-Sept-89	2 111 290.09	2 111 290.09	0	100%	Completed
Preventive locust control project (ADF)	29-Mar-01	08-May-01	5 760 000.00	527 021.51	5 232 978.49	9%	Ongoing
DIR institutional development project (GRANT)	23-Aug-89	28-Sept-89	2 256 514.56	2 256 514.56	0	100%	Completed
Preventive locust control project (Grant)	29-Mar-01	08-May-01	1 160 000.00	72 551.63	1 087 448.37	6%	Ongoing
Total Agriculture			130 782 394.73	116 073 518.14	14 708 876.59	89%	
Finance							
Credit line (ADF)	22-Mar-79	17-May-79	3 971 700.68	3 971 700.68	0	100%	Completed
Industry							
Fertilizer production (ADF)	25-May-92	12-Aug-92	5 619 792.21	5 619 792.21	0	100%	Completed
Multi sector							
Emergency program (ADF)	07-Sept-82	22-Sept-82	10 748 675.63	10 748 675.63	0	100%	Completed
Urgent infrastructure repairs (ADF)	19-Nov-84	05-Dec-84	1 040 525.36	1 040 525.36	0	100%	Completed
Additional financing mechanism (ADF)	02-Dec-98	17-Dec-98	1 418 000.00	1 418 000.00	0	100%	Completed
Additional financing mechanism (ADF)	01-Jul-99	13-Jul-99	1 561 000.00	1 561 000.00	0	100%	Completed
Second structural adjustment program (ADF)	17-Sept-97	02-Oct-97	21 740 000.00	21 740 000.00	0	100%	Completed
Third structural adjustment loan III (ADF)	27-April-00	20-May-00	16 000 000.00	15 987 426.10	12 573.90	100%	Completed
Structural adjustment program (ADF)	17-Jan-89	10-Feb-89	27 597 298.95	27 597 298.95	0	100%	Completed
Gretelle et Fabriola cyclone emergency program (ADF)	16-Jul-97	05-Aug-97	6 235 000.00	5 119 806.85	1 115 193.15	82%	Completed
Toliary Town Protection Project (ADF)	12-Nov-97	05-Dec-97	6 440 000.00	3 408 552.65	3 031 447.35	53%	Ongoing
Institutional support through adjustment (ADF)	26-Feb-91	09-May-91	1 380 000.00	1 380 000.00	0	100%	Completed
Fourth structural adjustment loan (ADF)	17-Sept-03	07-Nov-03	25 000 000.00	18 129 842.35	6 870 157.65	73%	Ongoing
Study on the implementation of anti-cyclone measures (ADF)	16-Jul-97	05-Aug-97	188 000.00	125 331.61	62 668.39	67%	Completed
Regular. study of Riv. Fiherenana; Tulear project (ADF)	27-May-88	28-May-89	1 528 946.00	1 528 946.00	0	100%	Completed
PRIBG			5 860 000.00	0	5 860 000.00	0%	Ongoing
Total Multi sector			126 737 445.94	109 785 405.50	16 951 040.44	87%	
Social							
Health sector pre-investment studies (ADF)	29-Oct-86	04-Feb-87	580 000.07	580 000.07	0	100%	Completed
Reinforcement of education structures (ADF)	27-Nov-86	16-Dec-86	12 347 589.26	12 347 589.26	0	100%	Completed
Health project (ADF)	31-Mar-81	11-May-81	7 368 416.00	7 368 416.00	0	100%	Completed
Education III (ADF)	02-Dec-98	17-Dec-98	16 000 000.00	487 416.45	15 512 583.55	3%	Ongoing
Education III (ADF)	02-Dec-98	17-Dec-98	500 000.00	3 024.90	496 975.10	1%	Ongoing
Health project II (ADF)	07-Jul-99	13-Jul-99	12 440 000.00	997 398.92	11 442 601.08	8%	Ongoing
Health project II (ADF)	07-Jul-99	13-Jul-99	750 000.00	377 023.02	372 976.98	50%	Ongoing
HIV/AIDS project			6 000 000.00	0	6 000 000.00	0%	Ongoing
Total social			55 986 005.33	22 160 868.62	33 825 136.71	40%	
Transport							
Rehabilitation of RN 7 (ADB)	22-Nov-83	08-Mar-84	19 658 500.26	19 658 500.26	0	100%	Completed
Construction of national road No. 7 (ADF)	10-Nov-83	08-Mar-84	14 698 462.14	14 698 462.14	0	100%	Completed
Construction of the Pangalanes canal (ADB)	18-Jan-84	08-Mar-84	10 541 560.03	10 541 560.03	0	100%	Completed
Construction of the Pangalanes canal (ADF)	25-Jan-84	08-Mar-84	18 409 830.27	18 409 830.27	0	100%	Completed
Cyclone damage repair project (ADF)	31-Oct-00	18-Dec-00	6 520 000.00	-	6 520 000.00	0%	Ongoing
Rehabilitation study for RN6 (ADF)	12-Mar-85	09-May-85	528 777.06	528 777.06	0	100%	Completed
Construction of Bealanana-Antsahebe road (ADF)	04-April-77	04-May-77	3 399 564.08	3 399 564.08	0	100%	Completed
Construction of Bealanana-Antsahebe road (FSN)	23-Feb-77	04-May-77	5 870 681.49	5 870 681.49	0	100%	Completed
Construction of Malaimbandi-Mahabo road(ADF)	17-Dec-84	02-Sept-85	9 022 102.10	9 022 102.10	0	100%	Completed
Road rehabilitation and maintenance (ADF)	15-May-90	30-Nov-90	6 493 417.00	3 301 778.23	3 191 638.77	51%	Ongoing
Rehabilitation of road RN1 bis (ADF)	09-Jan-02	13-Dec-02	10 100 000.00	0	10 100 000.00	0%	Ongoing
Rehabilitation studies for roads RN34, RN35 & RN41 (ADF)	02-Dec-98	17-Dec-98	1 340 000.00	740 396.52	599 603.48	55%	Completed
Study on RN6 and RN1bis (ADF)	07-Jul-99	13-Jul-99	772 888.06	772 888.06	0	100%	Completed
Rehabilitation of road RN1 bis (Grant)	09-Jan-02	13-Dec-02	230 000.00	0	230 000.00	0%	Ongoing
Road rehabilitation and maintenance (NTF)	15-May-90	30-May-90	6 000 000.00	1 047 904.35	4 952 095.65	17%	Ongoing
Road project in Toliary province (loan)			31 500 000.00	0	31 500 000.00	0%	Ongoing
Road project in Toliary province (grant)			1 890 000.00	0	1 890 000.00	0%	Ongoing
Total Transport			146 975 782.49	89 175 241.94	57 800 540.55	61%	
Water and sanitation							
Water supply project in the south (ADF)	22-Dec-86	04-Feb-87	5 101 639.71	5 101 639.71	0	100%	Completed
Water and sanitation in rural areas in the south (ADF)	11-April-01	08-May-01	7 930 000.00	244 542.35	7 774 920.39	2%	Ongoing
Water & san. study - Sanitation in 8 urban centers (ADF)	18-Dec-89	08-Feb-90	855 657.00	822 309.81	33 347.19	96%	Completed
Total water and sanitation			13 887 296.71	6 168 491.87	7 808 267.58	44%	
Overall total			483 960 418.09	352 955 018.96	131 005 399.13	73%	

Annex 3: 2005-2009 Strategic Matrix

Challenges for the country	Government strategy	Bank Group strategy	Bank Group operations		Other strategies Bilateral and multilateral	Benchmarks		
			Ongoing operations	Proposed operations		MDGs	End of CSP period goals	CSP implementa- tion period
Pillar 1 : Improving the quality of rural infrastructure to boost agricultural and fish production in rural areas in the south								
Raise agricultural production by 100% in five years and fish production to help reduce the poverty rate from 73.6% in 2003 to 36.8% in 2015	Promote rural development	Improve the quality of irrigation and fishing infrastructure and the guidance of farmers ; promote credit to farmers ; promote water supply and sanitation in rural areas ; and transport infrastructure in rural areas	Bas-Mangoky project, PROJER, PLPA Project, RN1 bis Rehabilitation Project, RN6, RN34, RN35, RN9 Study ; AEPA Project in the Grand South	Tuléar Fishing Communities Supporting Project Water Supply and Sanitation Program Manombo Integrated Rural Development Project Road Project in 2008.	Case of the World Bank, EU, France, Japan, FMI	The poverty rate declines from 73.6% in 2003 to 36.8% in 2015	Additional annual rice production in the Bas-Mangoky farming area exceeds 53,000 tons from 2008 ; Additional cotton and food-crop production reaches 4,200 tons and 4,500 tons respectively from 2010 Additional fish production reaches 3,000 tons of fish and 800 tons of octopuses from 2009.	2005-2009

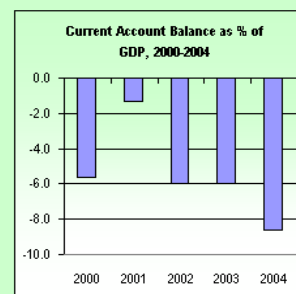
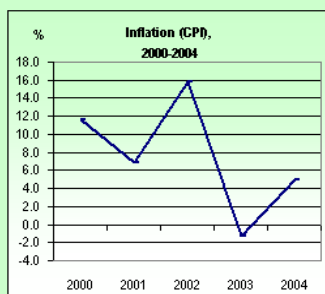
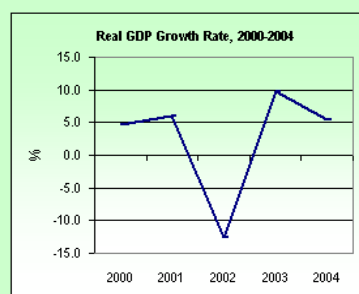
Annex 3: 2005-2009 Strategic Matrix (cont'd and end)

Challenges for the country	Government strategy	Bank Group strategy	Bank Group operations		Other strategies Bilateral and multilateral	Benchmarks		
			Ongoing operations	Proposed operations		MDGs	End of CSP period goals	CSP implementa- tion period
Pillar 2 : Improve governance to boost agricultural and fish production in rural areas in the south								
Raise agricultural production by 100% in five years and fish production to help reduce the poverty rate from 73.6% in 2003 to 36.8% in 2015	Improve the management of resources allocated to the rural sector and ensure effective implementation of decentralization to promote rural development	<p>Support macroeconomic stability ; Help to prepare program budgets which clearly identify rural development as a State mission and the corresponding programs and performance indicators</p> <p>Assist in the effective implementation of the decentralization process to provide councils and regions with the means to promote rural development ; promote real estate security in rural areas</p> <p>Promote public-private partnership</p>	PRIBG	Policy-based loan.	Case of the World Bank, EU, France, Japan, FMI	The poverty rate declines from 73.6% in 2003 to 36.8% in 2015	<p>Additional annual rice production in the Bas-Mangoky farming area exceeds 53,000 tons from 2008 ;</p> <p>Additional cotton and food-crop production reaches 4,200 tons and 4,500 tons respectively from 2010</p> <p>Additional fish production reaches 3,000 tons of fish and 800 tons of octopus from 2009.</p>	2005-2009

Annex4 : INDICATEURS SOCIO-ECONOMIQUES COMPARATIFS

MADAGASCAR
SELECTED MACROECONOMIC INDICATORS

Indicators	Unit	1995	2000	2001	2002	2003	2004
National Accounts							
GNI at Current Prices	Million US \$	3 002	3 807	4 470	4 332	5 378	5 826
GNI per Capita	US\$	240	250	260	230	290	..
GDP at Current Prices	Million US \$	3 159.9	3 877.7	4 529.6	4 397.3	5 474.0	4 273.1
GDP at 1995 Constant prices	Million US \$	3 159.9	3 814.0	4 042.4	3 531.0	3 876.6	4 083.9
Real GDP Growth Rate	%	1.7	4.7	6.0	-12.7	9.8	5.3
Real per Capita GDP Growth Rate	%	-1.2	1.7	3.0	-15.1	6.7	2.4
Gross Domestic Investment	% GDP	12.1	30.7	29.1	16.0	20.5	20.3
Public Investment	% GDP	6.3	6.7	7.3	4.8	5.8	7.8
Private Investment	% GDP	5.8	23.9	21.8	11.2	14.6	12.6
Gross National Savings	% GDP	2.4	25.0	27.8	10.1	15.5	15.1
Prices and Money							
Inflation (CPI)	%	49.0	11.6	6.9	15.8	-1.2	5.0
Exchange Rate (Annual Average)	local currency/US\$	4,265.6	6,767.5	6,588.5	6,832.0	6,191.6	9,344.3
Real Exchange Rate Index	Base 1995=100	100.0	107.6	100.8	91.7	86.2	126.9
Monetary Growth (M2)	%	16.2	17.2	23.8	8.0	8.8	10.8
Income Velocity (GDP / M2)	%	5.1	4.8	4.4	4.1	4.3	4.5
Government Finance							
Total Revenue and Grants	% GDP	11.4	15.3	14.0	10.2	15.4	19.9
Total Expenditure and Net Lending	% GDP	17.6	18.1	18.4	15.7	19.6	23.2
Overall Deficit (-) / Surplus (+)	% GDP	-6.2	-2.8	-4.3	-5.5	-4.2	-3.3
External Sector							
Exports Volume Growth (Goods)	%	9.3	30.8	4.4	-51.2	54.1	-5.8
Imports Volume Growth (Goods)	%	6.8	19.3	6.6	-45.3	58.2	-2.0
Terms of Trade Growth	%	-0.8	3.1	16.6	-11.0	-1.7	-8.0
Current Account Balance	Million US \$	-0.3	-0.2	-0.1	-0.3	-0.3	-0.4
Current Account Balance	% GDP	-9.7	-5.6	-1.3	-6.0	-6.0	-8.6
External Reserves	months of imports	2.1	3.7	5.0	7.0	4.5	5.0
Debt and Financial Flows							
Debt Service	% exports	52.7	12.4	14.5	27.7	15.8	8.0
External Debt	% GDP	138.6	116.0	98.9	99.1	84.2	112.8
Net Total Financial Flows	Million US \$	253.0	318.7	373.8	369.0	549.5	..
Net Official Development Assistance	Million US \$	301.2	322.2	373.9	372.6	539.5	..
Net Foreign Direct Investment	Million US \$	9.7	69.1	83.5	8.3	50.0	..



Source : ADB Statistics Division; IMF: World Economic Outlook, SEP.2004 and International Financial Statistics, Jan.2005; World Bank: Live Database, Nov. 2004; United Nations: OECD, Reporting System Division, January 2005.

Notes: ... Data Not Available

Last update April 2005

Annex 5. Madagascar: Economic and Financial indicators, 2003-09¹

	2003	2004		2005	2006	2007	2008	2009
		Program Projection				Revised projections		
	(Annual change in %, except otherwise indicated)							
National income and price								
Nominal GDP growth	12.8	16.4	20.3	21.9	12.	11.5	11.5	11.2
Real GDP growth	9.8	5.3	5.3	6.4	7.0	6.3	6.3	6.0
GDP deflator	2.8	10.5	14.3	14.6	4.9	4.9	4.9	4.9
Consumer price index (period average)	-1.7	10.1	13.8	13.9	5.0	5.0	5.0	5.0
Consumer price index (end of period)	-0.8	14.9	27.0	5.5	5.0	5.0	5.0	5.0
External sector								
Exports, fob	79.4	-2.4	-7.7	8.5	6.8	8.4	8.0	7.5
Imports, c.i.f.	73.7	8.5	9.7	6.7	2.7	4.6	5.0	5.4
Exports, volume	64.0	-1.2	-11.9	46.1	5.1	5.9	5.4	4.8
Imports, volume	73.7	-5.3	0.5	2.9	4.7	6.2	6.3	6.2
Terms of trade (deterioration -) ²	9.4	-13.9	-3.9	-28.3	3.6	3.9	3.9	3.4
Public finance								
Revenue (net of grants)	45.4	35.0	41.4	22.7	16.4	15.5	14.5	14.2
Total expenditure	40.6	37.9	31.2	24.1	12.1	9.9	7.4	10.9
Current expenditure	24.1	18.6	25.9	10.2	8.8	14.4	11.1	13.9
Investment expenditure and net loans	72.7	64.7	38.6	41.9	15.3	5.8	3.8	7.6
Money and credit³								
Broad money	8.2	12.6	16.4	19.2	14.5	14.5	14.5	14.5
Net foreign assets	14.9	59.3	68.3	15.0	24.8	24.7	19.0	19.0
Net domestic assets	5.7	-6.6	-4.9	22.3	7.4	6.5	10.4	10.0
Claims on government ⁴	13.7	-34.7	-35.5	-12.9	-20.6	-22.3	-24.0	-31.6
Claims on the private sector	22.2	22.2	28.6	22.1	23.0	23.8	22.5	22.3
Velocity of circulation of money (M3; average)	4.0	4.1	4.1	4.2	4.1	4.0	3.9	3.8
Weighted average of treasury bill tenders (in percentage; end of period)	10.8							
	(as % of GDP)							
Public finance								
Revenue (net of grants)	10.3	12.0	12.1	12.2	12.6	13.1	13.4	13.8
including: tax revenue	10.0	11.2	11.0	11.6	12.1	12.6	13.0	13.4
Grants	5.1	7.9	5.8	6.1	5.8	5.6	5.3	5.2
Capital expenditure	7.8	11.5	9.4	10.9	11.2	10.7	9.9	9.6
Total expenditure	19.5	23.1	21.3	21.7	21.7	21.4	20.6	20.5
Overall balance (pay order basis, including grants)	-4.2	-3.4	-3.5	-3.3	-3.2	-2.7	-1.8	-1.5
Overall balance (pay order basis, excluding grants)	-9.3	-11.3	-9.3	-9.5	-9.0	-8.3	-7.1	-6.7
Domestic financing	1.8	-1.1	-0.8	0.0	-0.5	-0.4	-0.3	-0.3
Money and credit³								
Broad money	25.1	24.3	24.3	23.8	24.2	24.9	25.6	26.3
Net foreign assets	7.3	10.0	10.2	9.7	10.7	12.0	12.8	13.7
Net domestic assets	17.8	14.3	14.1	14.1	13.5	12.9	12.8	12.6
Claims on government	9.1	5.1	4.9	3.5	2.5	1.7	1.2	0.7
Claims on the private sector	8.8	9.2	9.4	9.4	10.3	11.4	12.6	13.8
Savings and investment								
Resource gap	-9.0	-15.2	-14.9	-13.3	-11.3	-10.2	-9.2	-8.4
Investment	17.9	23.7	24.4	24.9	24.7	24.1	23.2	22.9
Central Government	7.8	11.5	9.4	10.9	11.2	10.7	9.9	9.6
Non-central Government	10.1	12.2	15.0	14.0	13.5	13.4	13.3	13.3
Gross domestic savings	8.9	8.6	9.4	11.7	13.4	13.8	14.1	14.5
Gross national savings	13.0	14.6	15.9	16.8	18.3	18.4	18.4	18.6
Public	3.7	8.1	5.9	7.6	8.0	8.0	8.1	8.1
Private	9.3	6.4	10.0	9.2	10.3	10.	10.2	10.5
External sector, public debt, and debt servicing								
Exports, fob	17.2	19.7	21.1	21.0	20.6	20.7	20.6	20.5
Imports, c.i.f.	24.3	33.5	35.5	34.7	32.7	31.7	30.7	30.0
Current account balance (net of grants)	-7.5	-13.2	-12.2	-10.8	-8.9	-7.9	-7.0	-6.3
Current account balance (including grants)	-4.9	-9.2	-8.5	-8.2	-6.4	-5.6	-4.9	-4.3
Net present value (NPV) of external debt (after enhanced HIPC relief)								
NPV of debt/GDP	61.7	50.6	51.6	48.3	46.8	45.3	43.3	41.4
NPV of debt/exports ⁵	305.7	213.5	204.7	177.1	172.3	164.7	158.0	151.5
	(In indicated units)							
Gross official reserves (in SDR million)	284.6	327.5	325.6	342.2	394.7	454.3	506.4	564.8
In months of imports of non-factor goods and services	2.7	3.0	3.0	3.0	3.3	3.6	3.8	4.1
Exchange rate: Malagasy Franc to SDR (period average)	8,646.0		13,860.4					
Exchange rate: Malagasy Franc to US dollar (period average)	6,203.4		9,354.1					
GDP per head (in US dollars)	324	255	251	276	292	306	322	337
Nominal GDP (in billions of Malagasy francs)	33,893	39,446	40,778	49,71	55,808	62,241	69,415	77,198

Sources: FMI.

¹ The sum may not tally with the totals because of rounded figures.

² On the basis of weights in 1993 trade.

³ The composition of the money supply increase in 2003 reflects the reclassification of the debt of SOLIMA, a State-owned corporation, (FMG 350.4 billion) by the Government.

⁴ For 2003, including acquisition of SOLIMA's debt by the Government.

⁵ Based on the average of three consecutive years ending with the current year (e.g.: exports average for 2001-2003 for NPV of debt/exports in 2003).

Annex 6. Government Finance, 2003-09 (as % of GDP, save otherwise indicated)

	2003	2004	2005	2006	2007	2008	2009
			Prog./Rev.	Projections		Revised projections	
							19.0
Total revenue and grants	15.4	19.8	17.9	18.3	18.5	18.7	18.8
Total revenue	10.3	12.0	12.1	12.2	12.6	13.1	13.4
Tax revenue	10.0	11.2	11.0	11.6	12.1	12.6	13.0
Non-tax revenue	0.3	0.8	1.1	0.6	0.5	0.5	0.4
Grants	5.1	7.9	5.8	6.1	5.8	5.6	5.3
Current grants	2.5	3.7	3.5	2.2	2.2	2.0	1.9
Debt relief grants under the HIPC initiative	0.6	0.5	0.4	0.7	0.8	0.7	0.6
Project grants	2.6	4.2	2.3	3.9	3.7	3.6	3.5
Total expenditure	19.5	23.1	21.3	21.7	21.7	21.4	20.6
Current expenditure	11.4	11.6	11.9	10.8	10.4	10.7	10.9
Non-interest expenditure	8.9	8.1	8.2	7.8	8.3	8.8	9.0
Personnel	5.4	4.9	4.9	4.6	4.8	4.9	4.9
of which : financed by HIPC	0.4	0.3	0.3	0.4			
Other non-interest expenditure	3.5	3.2	3.3	3.2	3.5	3.9	4.1
of which : financed by HIPC	0.4	0.3	0.2	0.2	0.0	0.0	0.0
Interest	2.2	3.0	2.7	2.7	1.9	1.7	1.5
Treasury operations ¹	0.2	0.4	0.9	0.3	0.2	0.2	0.1
Emergency expenditure	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	7.8	11.5	9.4	10.9	11.2	10.7	9.9
Expenditure financed by domestic resources	2.5	3.0	2.9	2.8	3.8	3.9	4.0
Expenditure financed by external resources	5.3	8.5	6.5	8.2	7.4	6.7	6.0
of which : financed by HIPC	0.4	0.2	0.2	0.5			
Government loans	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Domestic budgetary balance	-2.7	-1.3	-1.5	0.0	-0.4	-0.4	-0.1
Primary balance ²	1.1	3.0	2.6	3.9	3.9	3.9	4.2
Net cost of structural reforms ³	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0
Exceptional revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cost of structural reforms	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Overall balance (commitment basis)							
Net of grants	-9.3	-11.3	-9.3	-9.5	-9.0	-8.3	-7.1
Including grants	-4.2	-3.4	-3.5	-3.3	-3.2	-2.7	-1.8
Domestic balance ⁴	-3.1	-1.4	-1.6	0.0	-0.4	-0.4	-0.1
Change in arrears	-0.6	-0.9	-0.9	-0.	-0.2	-0.1	-0.1
Total overall balance (cash basis, net of grants)	-9.9	-12.2	10.1	-9.9	-9.2	-8.3	-7.2
Total overall balance (cash basis, incl. grants)	-4.8	-4.3	-4.3	-3.7	-3.4	-2.7	-1.9
Financing	4.8	4.3	4.3	3.7	3.4	2.7	1.9
External (net)	2.8	5.1	4.8	4.0	3.8	3.2	2.1
Drawings	3.7	5.8	5.8	5.0	4.9	4.2	3.2
Budget	0.9	1.7	1.8	1.2	1.1	1.1	0.7
Projects	2.7	4.1	4.0	3.7	3.8	3.2	2.5
Amortization due	-1.9	-1.8	-2.1	-2.0	-1.7	-1.4	-1.4
External arrears change	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
External debt relief	1.2	1.1	1.1	1.0	0.7	0.4	0.3
Of which : HIPC assistance	0.4	0.3	0.3	0.4	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	1.8	-1.1	-0.8	-0.3	-0.5	-0.4	-0.3
Of which : Banking system ⁵	0.1	-2.6	-2.5	-0.5	-0.6	-0.5	-0.4
Privatization receipts	0.2	0.3	0.4	0.0	0.0	0.0	0.0
Memorandum items:							
Total domestic debt	16.0	12.5	12.5	9.9	8.4	7.1	6.1
Social expenditure	4.0	4.8	3.9	5.4			
Nominal GDP (in billion Malagasy Francs)	33,893	39,446	40,778	49,712	55,808	62,241	69,415

Sources: IMF.

¹Including the annex budgets of semi-public entities, comprising the ports, postal services, State-owned printing presses, the public service pension fund and correspondent accounts of local authorities.

²Defined as total revenue (net of tax revenue from the Central Bank) less current expenditure (net of domestic and external interest payments).

³The cost of structural reforms comprises: (a) as revenue, outstanding loans recovered by the debt recovery unit which holds the non-performing loans of the two (previously) State-owned banks (BFV and BTM) after the restructuring of their assets; and (b) as expenditure, the cost of public service reform (training, incentive earnings and salary decompression); readjustment of salaries and equipment of the judicial system; privatization (layoff pay, administrative costs, transfers to regional development funds which provide grants and concessional financing basic social infrastructure or to employees affected by privatization and compensation of landowners expropriated from their estates); and capital transfers for the restructuring of the assets of the two insolvent banks (BFV and BTM).

⁴Total revenue less expenditure, excluding external interest payments and capital expenditure financed with external resources.

⁵Excluding the effects of exchange rate variations on net claims on the Government in foreign exchange.

Annex 7: Monetary survey, 2003-05 (in billion Malagasy francs, save otherwise indicated)

	2003	2004				2005				
	Dec.	Sep.	Act.	Dec.	Proj.	Mar. Proj.	June. Proj.	Sept. Proj.	Dec.	Rev. Proj.
		Prog. 1/		Prog. 1/					Proj. 1/	
Net foreign assets	2,479.3	4,163.7	4,756.1	3,949.0	4,173.4	4,675.2	4,675.2	4,721.8	4,646.1	4,799.5
Net foreign assets (CBM)	1,424.0	2,556.1	3,043.1	2,342.7	2,443.2	2,741.1	2,741.1	2,741.1	2,763.7	2,741.1
Net foreign assets (Commercial banks)	1,055.3	1,607.6	1,713.0	1,606.2	1,730.2	1,934.1	1,934.1	1,980.7	1,882.3	2,058.4
Net domestic assets	6,043.4	5,339.2	5,102.9	5,645.5	5,745.2	6,086.6	6,330.9	6,783.9	6,195.7	7,023.6
Domestic credit	6,509.5	6,203.4	6,257.3	6,136.9	6,327.2	6,542.8	6,674.5	6,795.9	6,847.4	6,915.3
Claims on central government (budget)	3,078.4	2,071.1	2,030.1	2,011.6	1,985.2	1,890.8	1,870.8	1,728.6	1,915.4	1,728.7
Other claims of the public sector	410.5	424.8	450.5	424.8	446.7	446.7	446.7	446.7	424.8	446.7
Claims on the economy	3,020.6	3,707.6	3,776.7	3,700.5	3,895.3	4,205.3	4,357.0	4,620.5	4,507.2	4,739.9
Claims on State-owned corporations	46.2	66.2	66.0	66.2	69.8	69.8	69.8	69.8	66.2	69.8
Claims on the private sector	2,974.5	3,641.4	3,710.7	3,634.3	3,825.5	4,135.5	4,287.2	4,550.8	4,441.0	4,670.1
Other assets (net; Asset +)	-466.1	-864.2	-1,154.4	-491.4	-581.9	-456.2	-343.6	-12.0	-651.6	108.3
M3	8,522.8	9,502.9	9,859.0	9,594.5	9,918.7	10,761.8	11,006.1	11,505.7	10,841.8	11,823.1
Foreign exchange deposits	1,086.9	1,578.4	1,788.1	1,578.4	1,710.9	1,912.5	1,912.5	1,912.5	1,849.8	1,912.5
M2	7,435.9	7,924.5	8,070.9	8,016.1	8,207.8	8,849.3	9,093.6	9,593.2	8,992.0	9,910.6
Currency	2,570.0	2,565.8	2,725.6	2,590.5	2,767.3	3,002.5	3,070.7	3,210.1	2,927.3	3,298.6
Deposits in local currency	4,688.7	5,203.0	5,215.5	5,262.9	5,308.3	5,714.6	5,890.7	6,251.0	5,902.1	6,479.8
Short-term obligations of commercial banks	177.2	155.7	129.8	162.6	132.2	132.2	132.2	132.2	162.6	132.2
Memorandum items:	(Previous year, save otherwise stated)									
M3	8.2	11.5	15.7	12.6	16.4	8.5	11.0	16.0	13.0	19.2
M2	6.3	6.6	8.5	7.8	10.4	7.8	10.8	16.9	12.2	20.7
Domestic credit	9.4	-4.7	-3.9	-5.7	-2.8	3.4	5.5	7.4	11.6	9.3
Claims on the private sector	22.2	22.4	24.8	22.2	28.6	8.1	12.1	19.0	22.2	22.1
Claims on the government 2/	13.7	-32.7	-34.1	-34.7	-35.5	-4.8	-5.8	-12.9	-4.8	-12.9
Base money	-0.3	-2.3	-0.9	-1.4	11.7	8.4	10.8	15.6	12.5	18.6
Currency/M3 (as percentage)	30.2	27.0	27.6	27.0	27.9	27.9	27.9	27.9	27.0	27.9
Base money multiplier (M3/reserves)	2.4	2.8	2.8	2.8	2.5	2.5	2.5	2.5	2.8	2.5
Velocity of money circulation (GDP/M3 at end of period)	4.0			4.1	4.1				4.2	4.2
Exchange rate (Malagasy Franc to SDR; end of period) 3/	9,027.0	13,739.3	15,233.4	13,739.3	14,478.4	16,184.6	16,184.6	16,184.6	16,100.9	16,184.6

Annex 8: Balance of payments, 2003-09 (in million SDR, save otherwise indicated)

	2003	2004	2005	2006	2007	2008	2009
		Prog./	Projections				
					Revised		
					projections		
Current account	-191.6	-277.6	-248.9	-262.0	-224.4	-212.0	-189.9
Goods and services	-350.9	-458.7	-439.5	-426.1	-395.0	-386.0	-369.6
Trade balance	-135.7	-284.2	-265.6	-272.0	-252.3	-236.7	-218.9
Exports	672.8	596.4	621.2	674.0	719.5	780.2	905.8
Imports	-808.5	-880.6	-886.8	-946.0	-971.8	-1,016.9	-1,125
Net services (net)	-215.2	-174.5	-174.0	-154.1	-142.8	-149.3	-150.7
Services, credits	229.3	256.7	259.1	285.4	319.9	337.1	388.7
Services, debits	-444.5	-431.2	-433.1	-439.5	-462.7	-486.4	-539.4
Income (net)	-57.0	-48.6	-54.9	-58.0	-56.6	-58.5	-62.7
Receipts	11.7	22.0	10.0	10.3	10.9	11.5	12.2
Payments	-68.7	-70.6	-64.9	-68.3	-67.5	-70.0	-74.9
Of which : government interests ¹	-40.5	-40.9	-39.1	-41.3	-41.0	-41.8	-42.9
Current transfers	216.4	229.7	245.5	222.1	227.2	232.5	242.4
Government	102.0	119.7	110.8	84.7	85.6	86.7	90.0
Budget Aid	91.6	109.3	97.1	68.7	75.6	76.7	80.0
HIPC relief ²	22.2	20.3	20.0	22.2	26.9	25.8	24.6
Grants	69.5	89.0	77.2	46.5	48.8	50.9	55.4
Miscellaneous (net) ³	10.4	10.4	13.7	16.0	10.0	10.0	10.0
Private	114.4	110.0	134.7	137.4	141.5	145.8	152.4
Capital and financial account	165.3	250.4	218.3	243.7	271.1	276.8	255.9
Capital account (grants for government projects)	63.8	124.5	93.7	121.7	128.1	134.5	148.1
Financial account	28.9	125.9	124.6	122.0	143.0	142.3	107.8
Direct investment	9.1	30.0	30.0	48.1	52.4	56.6	66.2
Of which : privatization receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	19.8	95.9	94.6	73.9	90.6	85.6	41.7
Government	47.6	105.6	107.0	92.6	110.9	105.7	68.2
Drawings	121.0	173.6	173.4	155.2	171.0	160.0	130.2
Drawings on projects	83.5	122.9	123.2	116.5	131.0	120.0	99.2
Budgetary support	37.5	50.7	50.2	38.7	40.0	40.0	30.0
Non-government	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Amortizations ¹	-73.4	-68.0	-66.4	-62.6	-60.1	-54.3	-62.0
Private sector amortizations	-7.0	-9.7	-9.7	-10.8	-20.2	-20.1	-26.6
Banks, net	-20.8	0.0	-2.7	-8.0	0.0	0.0	0.0
Others (including errors and omissions) ⁴	72.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-26.2	-27.2	-30.6	-18.3	-46.7	64.8	66.1
Financing	26.2	27.2	-30.6	18.3	-46.7	-64.8	-66.1
Net foreign assets (Increase -)	-12.1	-13.4	-11.5	-14.4	-70.2	-78.0	-80.8
Use of IMF credits (net)	5.9	29.5	29.5	29.5	2.3	-17.8	-17.8
Disbursements	11.3	34.9	34.9	34.9	11.3	0.0	0.0
Reimbursements	-5.4	-5.4	-5.4	-9.1	-17.8	-18.4	-17.8
Other assets, net (increase-)	-18.0	-42.9	-41.0	-16.7	-52.5	-59.7	-52.0
Debt relief and cancellation ⁵	47.8	40.6	42.1	32.7	23.6	13.2	14.1
Memorandum items:							
Grants (as percentage of GDP)	4.2	8.1	7.0	6.4	6.1	5.9	5.6
Loans (as percentage of GDP)	1.2	3.5	3.6	2.9	3.2	2.8	1.8
Direct investment (as percentage of GDP)	0.2	1.0	1.0	1.5	1.5	1.5	1.5
Current account (as percentage of GDP)							
Net of official transfers	-7.5	-13.2	-12.2	-10.8	-8.9	-7.9	-7.0
Including official transfers	-4.9	-9.2	-8.5	-8.2	-5.6	-4.9	-4.3
Gross official reserves	284.6	327.5	325.6	342.2	394.7	454.3	506.4
(In months of imports of non-factor goods and services)	2.7	3.0	3.0	3.0	3.3	3.6	3.8
Exchange rate							
Malagasy franc /SDR (period average)	8,646.0		13,860.4				
Malagasy Franc / US dollar (period average)	6,203.4		9,354.1				

Annex 9: National accounts
GDP growth and structure, 1999-2004

	1999	2000	2001	2002	2003	2004
		Annual change in %				
Primary sector	3.5	1.0	4.0	-1.3	1.3	3.1
Agriculture	5.3	-2.1	5.5	0.8	2.6	3.5
Livestock and fisheries	-2.6	2.8	3.1	2.6	4.1	3.3
Forestry	18.2	5.6	2.1	-20.0	-15.0	0.0
Secondary sector	4.3	7.1	7.5	-20.7	14.5	6.6
Food, beverages and tobacco	4.3	6.2	0.9	-10.2	7.5	3.4
Energy	4.1	5.8	-6.3	-31.1	8.8	6.0
Export processing zones	22.4	22.4	40.0	-40.0	76.0	25.0
Others	C`	5.3	19.0	-24.2	12.7	4.2
Tertiary sector	5.5	5.0	6.2	-15.0	10.6	6.0
Transport	4.4	3.9	4.6	-24.3	15.4	5.6
Construction	11.7	7.5	13.5	-15.1	30.0	29.0
Retail and wholesale	3.3	3.3	4.3	-7.4	4.1	3.4
Government	0.0	-0.1	2.0	2.0	6.0	1.6
Other services	10.0	9.7	8.4	-15.5	10.1	6.2
GDP at market prices	4.7	4.7	6.0	-12.7	9.8	5.3
Real GDP per capita	1.6	1.6	2.9	-15.2	6.7	2.0
GDP deflator	9.8	7.1	7.3	15.3	2.8	14.3
		(in percentage of GDP at current prices)				
Primary sector	27.5	26.5	25.7	29.8	26.8	26.2
Agriculture	14.7	13.6	13.7	16.6	15.4	15.5
Livestock and fisheries	7.5	7.8	7.3	8.8	7.6	7.2
Forestry	5.2	5.1	4.8	4.5	3.8	3.5
Secondary sector	12.2	12.9	13.5	13.6	14.1	14.5
Food, beverages and tobacco	5.5	5.3	5.3	5.0	4.9	4.7
Energy	1.3	1.5	1.4	1.2	1.0	1.0
Export processing Zone	2.0	2.4	2.8	3.8	4.6	5.2
Others	3.4	3.7	3.9	3.5	3.6	3.6
Tertiary sector	52.3	52.1	53.8	51.3	51.6	50.9
Transport	17.2	16.8	16.9	15.2	14.4	15.2
Construction	1.5	1.6	1.8	1.8	1.9	2.3
Retail and wholesale	11.3	10.8	11.2	11.8	11.5	10.8
Government	5.4	5.5	5.8	5.5	6.4	6.2
Other services	16.9	17.4	18.3	17.0	17.4	16.3
Imputed charges	-1.3	-1.0	-0.8	-0.7	-0.7	-0.6
GDP at factor cost	90.7	90.5	92.3	94.1	91.8	90.9
Indirect taxes	9.3	9.5	7.7	5.9	8.2	9.1
Net imports of non-factor goods and services	8.0	7.3	3.2	6.6	1.8	16.3
Total available resources	108.0	107.3	103.2	106.6	101.8	116.3
Consumption	93.1	92.3	84.7	92.3	98.2	88.9
Gross investment	14.9	15.0	18.5	14.3	3.6	27.5
Gross domestic savings	6.9	7.7	15.3	7.7	1.8	11.1

Sources: FMI. Selected Issues and Statistical Appendix, May 18, 2005

Annex 10

External Financing Requirements (in SDR million)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
External financing requirements					
Current account	283.4	241.7	220.3	192.2	175.8
Amortization of public loans	61.4	60.1	54.3	58.5	62.0
Amortization of private sector loans	5.0	5.0	5.0	5.0	5.0
Net external assets of banks	0.0	0.0	0.0	0.0	0.0
Total	349.8	306.8	279.6	255.7	242.8
Regular financing					
Public capital movements	110.5	116.3	122.2	128.3	134.5
Direct investment	48.2	52.5	56.9	61.7	66.7
Drawings on public financing	155.2	171.0	160.0	132.8	131.1
Miscellaneous (including errors and omissions)	0.0	0.0	0.0	0.0	0.0
Total	313.9	339.8	339.1	322.8	332.3
External financing requirements ⁹	35.9	-33.0	-59.5	-67.1	-89.5
Net external assets of CBM (increase -)	0.7	-56.7	-72.7	-81.2	-104.2
Debt relief	35.1	23.6	13.2	14.1	14.7

Source: Calculations of services based on balance of payments data provided by the IMF (See IMF: Republic of Madagascar: Staff Report for the 2005 Article IV Consultation, May 17, 2005)

⁹ A sign – indicating an external financing surplus

Annex 11: General Overview of MDGs

Targets	Indicators	Will the objective be attained	Status
Objective 1: Reduce extreme poverty			
Target 1 : Reduce by half the proportion of people living in extreme poverty between 1990 and 2015	1. Poverty ratio	Potentially	Average
Target 2 : Reduce by half the proportion of people who suffer from hunger between 1990 and 2015	2. Incidence of hunger	Probably	Low but improving
	3. Rate of low birth weight among children	Potentially	Average
Objective 2: Achieve universal primary education			
Target 3 : Ensure that all boys and girls complete a full course of primary schooling in 2015	Net enrollment ratio	Potentially	Average
	Completion ratio	Potentially	Average
Objective: 3 Promote gender equality and empower women			
Target 4 : Eliminate gender disparity in primary and secondary education by 2005 and at all levels of by 2015 latest.	Male/female ratio in education (primary, secondary, university all together)	Potentially	Average
Objective: 4 Reduce infant mortality			
Target 5 : Reduce by two-thirds the mortality rate among children under 5 between 1990 and 2015	Infant mortality rate	Probably	Average
	Proportion of one-year old children vaccinated against measles	Potentially	Average
Objective 5: Improve maternal health			
Target 6 : Reduce $\frac{3}{4}$ the maternal mortality ratio by between 1990 and 2015	Proportion of births handled by qualified health staff	Potentially	Average
Objective 6: Combat HIV/AIDS, malaria and other diseases			
Target 7 : Halt the spread of HIV/AIDS and begin to reverse current trends by 2015	Prevalence rate among pregnant women	Insufficient data	Low but improving
Target 8 : Halt malaria and other major diseases and start to reverse current trends by 2015	Malaria incidence rate	Probably	Average
Objective 7: Ensure environmental sustainability			
Target 9 : Integrate the principles of sustainable development into country policies and programs; reverse loss of environmental resources	Percentage of forest-covered land	Probably	High
Target 10 : Reduce by half the proportion of people without sustainable access to safe drinking water by 2015	Proportion of people with access to safe drinking water in urban and rural areas	Low potential especially in rural areas	Average
Objective 8: Develop a global partnership for development			
Target 11 : Address the special needs of least developed countries	Debt service / exports ratio	Probably	Average

Source: Madagascar: Millennium Development Goals Report, September 2004. United Nations and Gov't of Madagascar.

Annex 12: List of some Documents Consulted for CSP Preparation

1. Republic of Madagascar: Poverty Reduction Strategy Paper, June 2003;
2. Republic of Madagascar: Poverty Reduction Strategy Paper, First annual implementation report; July 2004;
3. Republic of Madagascar: Poverty Reduction Strategy Paper, Update, Draft, June 2005;
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7. ADB, UNDP: Republic of Madagascar: Country Governance Profile, April 2005
8. IMF: Madagascar: Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, dated February 3, 2005.
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10. IMF: Staff Report for the 2005 Article IV Consultation, May 17, 2005
11. IMF: Republic of Madagascar: Selected Issues and Statistical Appendix, May 18, 2005
12. ADB: Madagascar, Portfolio Improvement Plan, 2005
13. ADB: Annual Portfolio Performance Review, 2002-2003;
14. UNDP: Madagascar: National Human Development Report, 'Gender, Human Development and Poverty', 2003
15. ADB: Completion Report, National Maize Project, July 2005
16. World Bank: Madagascar: Development Policy Review; Sustaining Growth for Enhanced Poverty Reduction; February, 2005; PREM I, Southern Africa, Africa Region
17. World Bank: Madagascar; Public Expenditure Review; The Challenge of Poverty Reduction; Report No. 30331-MG, February 25, 2005; AFTPR, Africa Region
18. World Bank: Memorandum and Recommendation of the President of the International Development Association to the Executive Directors on a Country Assistance Strategy for the Republic of Madagascar, October 20, 2003
19. World Bank: Memorandum and Recommendation of the President of the International Development Association to the Executive Directors on Assistance to the Republic of Madagascar under the Enhanced HIPC Debt Initiative, October 4, 2004