Board Meeting of February 18, 1997
Statement by Andrei Bugrov

Madagascar: Country Assistance Strategy

In general

We strongly endorse the proposed assistance strategy for the Republic of Madagascar with all its accompanying risks. In the face of an extremely difficult economic, social and political environment in the country, the document explicitly argues for more active Bank involvement. I consider this as a clear indication that the staff is fully determined to work hard to achieve material results on the ground. Hence, we commend the authors of the CAS for its preparation and wish its successful implementation.

Risks

The risks associated with the strategy are well identified in the CAS paper. They are very significant indeed, wherefrom one could easily find arguments in favor of a ‘wait-and-see’ approach. Nevertheless, we believe that, under present circumstances without assuming these risks a real chance to make a breakthrough to economic recovery and substantial poverty alleviation in Madagascar would be missed. It may be a long time before there is another similar opportunity for the Bank and one of its poorest clients. Therefore, we welcome and support a bold and pro-active thrust of the CAS. At the same time, I would like to emphasize the need for a careful monitoring of the risks and, more importantly, an aggressive approach to addressing them.

The Government

The Government’s objectives with regard to economic growth and poverty reduction are very ambitious, but, in our view, are not unrealistic given the country’s rich potential in terms of natural and labor resources. This potential can be engaged fully enough only if there will be a strong private investment inflow and broad support by the donor community. The CAS provides a good framework for such assistance on the Bank’s part. But the key role has to be played by the Government. We urge the Government to act promptly and decisively on the heavy reform
agenda. The reality is such that there is no other way to success. The price for policy slippages and stalled structural reforms would be too high for the country.

Resident Mission

Among recent encouraging developments we are pleased to note the increased activity of the Resident Mission in intensifying and widening country dialogue. We particularly welcome the initiatives in information dissemination and CAS discussion involving diverse concerned parties. It is needless to say how important at this juncture is the building of a stronger national consensus on reform. The field team in Antananarivo also deserves commendation for its meaningful input in ensuring the effective use of the existing substantial IDA portfolio in Madagascar.

NGOs

I welcome the recognition and incorporation into the CAS of the valuable experience of NGOs which have been actively engaged in providing assistance to local communities. We hope that the planned close cooperation between the Bank and NGOs will facilitate the direct poverty alleviation programs, particularly in the social and rural infrastructure sectors.

Debt

Appendix D contains rather comprehensive, though concise, debt sustainability analysis which we find very useful. Madagascar has a heavy burden of external debt. A significant part of it (over $0.5 billion) is owed to the Russian Federation. Madagascar fully recognizes the debt claims inherited by Russia from the FSU, and does not question the appropriate exchange rate for their dollar valuation. This provides solid ground for constructive bilateral negotiations on debt rescheduling the final round of which is expected soon.