Board Meeting of February 18, 1997
Statement by Jan Piercy

Madagascar: Country Assistance Strategy

1. We commend the Bank for the excellent work on this CAS. Addressing dire poverty in Madagascar requires the mix this CAS prescribes: human capital development, broad-based growth, strengthening the public sector to deliver services and create a business-friendly climate, and natural resource management to reduce environmental degradation and develop eco-tourism. We are pleased that effective interventions aimed at direct poverty reduction are integral components of the CAS, e.g. rural transport, education, health, nutrition, and water and sanitation.

2. We welcome clear use of the June 1996 Poverty Assessment in developing this CAS. Poverty Assessments are a relatively new Bank instrument which have, in our view, clearly demonstrated their value in the short time they have been employed, strengthening our poverty focus, and our capacity to make strategically targeted selective interventions.

3. We agree with the overall approach underlying the CAS. Madagascar’s history of policy reversals could warrant a conservative strategy, but progress on economic reform over the last year warrants the more aggressive approach taken in this CAS. We are pleased that most of the up-front actions required under the proposed Structural Adjustment Credit (SAC) have been met and that the credit will be moving forward. If the new government stalls or backtracks on the implementation of reforms, however, the Bank should not proceed with future adjustment lending and investment operations. We therefore endorse the base/low/high alternative economic and lending scenarios and the motivating factors that would trigger the Bank to move from one scenario to another.

4. The CAS does an excellent job of putting into perspective the risks the GOM faces in implementing its reform program. Certain segments of Malagasy society may not support many of the reforms. The new President’s commitment to reform, poverty reduction and the need to open up the country to investment will act as a partial counterweight to these risks. We hope that the change of leadership will deepen Madagascar’s commitment to reform. Only with a meaningful commitment to structural adjustment by the GOM can Madagascar hope to attract the foreign investment necessary to achieve growth rates sufficient to break out of the poverty cycle. In this regard, we believe engaging EDI as outlined in paragraph 56 “...to strengthen the political will for reform” is critically important, and I would welcome comment from staff regarding Madagascar’s views on how this can best be approached.
5. We view President Ratsiraka's visit to Washington next month to meet with World Bank officials as an indication of the depth of commitment to continuing reforms. In view of Malagasy domestic developments over the last six months, Bank Management made the right decision to delay Board consideration of this CAS until now. Given the recent government transition, we would welcome staff comment on the extent to which consultations on the CAS were possible, and the degree of country "ownership" of the strategy presented.

6. Madagascar's heavy debt burden of $4.4 billion, of which $2.1 billion is in arrears, is cause for concern. Paris Club treatment would reduce the debt to a somewhat more manageable level. The upcoming SAC will also provide balance of payments support. However, we are concerned that even with debt relief, economic performance projections in the base case scenario may be overly optimistic and it may be difficult for the GOM to finance essential services and make debt service payments. Has the Bank discussed a debt management strategy with the new government?

7. The CAS appropriately underlines the key role played by foreign investment in the future growth of Madagascar. The GOM's recent adoption of investment incentives such as allowing foreigners to hold long-term leases, liberalizing visa regulations for businesspersons, and paving the way for the break-up of monopolies in the air transport and telecommunications sectors are a good start to creating a favorable investment environment. We agree with the Bank's observation that progress in other areas such as the petroleum sector has lagged, noting that the GOM has recently entered into agreement with an international consultant to explore ways to help break the logjam.

8. The Bank and the international donor community should remain attentive to the new government's intentions to privatize public enterprises, in particular the two state-owned commercial banks scheduled to be divested in 1997. We are pleased that IFC and the Bank jointly prepared the Private Sector Assessment, which underpins many of the actions under the SAC and the proposed Private Sector Capacity Building Credit. Although there are eight IFC investment operations in Madagascar, the CAS does not indicate how well these operations have performed. A brief update on the performance of these on-going operations would be appreciated during our discussion of the CAS. We are pleased to note the significant improvement in the portfolio performance for the Bank's other operations between FY92 and FY96.

9. The world has a great stake in Madagascar's biodiversity, which is among the richest in the world. Over 80% of the country's plant and animal species are found nowhere else on the planet. Using traditional slash and burn agricultural techniques, Malagasy farmers wipe out untold numbers of unidentified species each year. Recent economic problems have exacerbated environmental degradation. Strong measures to protect Madagascar's natural resources must be undertaken now if plants and animals unique to Madagascar are to be saved, and their potential economic value is to be realized. We applaud the Bank's efforts to address these concerns. In addition, the environmental implications of infrastructure development will require careful consideration.
10. The Bank should take pride in the second phase of Madagascar's National Environmental Action Program. The second phase builds on the strengths of its precursor. It is an outstanding example of collaboration, partnership and African ownership. The Bank, in partnership with the GOM, other donors, NGOs, and other concerned organizations, has demonstrated that a participatory approach to addressing the country's significant environmental problems and opportunities can lead to better collaboration and greater Malagasy ownership of their own development. The presence of a joint Malagasy/expatriate multilateral donor coordination office will go a long way towards ensuring success.

11. Given the success of the donor coordination effort in the environment sector, we believe that donors could improve resource allocation and project performance by coordinating assistance through regular meetings in Antananarivo. The Bank should build on its previous successes as a catalyst for this interaction. The effective February 10 meeting for donors hosted by Country Director Michael Sarris in Antananarivo is an example of the important coordinating role the Bank can play.

12. We understand that participants at the February 10 meeting identified obstacles to a successful reform program, and established working groups to confront these weaknesses in the areas of corruption, financial sector reform, judicial reform, decentralization, and public sector capacity building. Progress in these areas is critical if Madagascar is to break out of its cycle of poverty and achieve the objectives set out in the CAS. We applaud the Bank for taking on this important initiative.