Board Meeting of February 18, 1997  
Statement by Mr. Jannes Hutagalung  

Madagascar: Country Assistance Strategy

We welcome the opportunity of discussing this CAS and would like to commend staff for preparing a well written document which presents development challenges, prospects and reform agenda of Madagascar. Although we have several observations to make, we support the general thrust of the CAS which aims to reduce poverty in the country. Let me start with the reasons why we are in agreement with the CAS and then I will convey our comments.

First, in light of the high poverty incidence in Madagascar, the CAS’s objective of poverty reduction is not only consistent with that of the Bank and of the GOM, but also is of the highest priority from the humanitarian point of view. It is disheartening to note that a rich potential country such as Madagascar is experiencing a social and economic decline with indicators comparable to or even below averages for Sub-Saharan Africa. This situation points to the urgency of putting right economic policies in place to reverse the decline. We are pleased, therefore, that the GOM has formulated a reform agenda and taken liberalization measures which, although are still in an early phase, have shown good results.

Second, we concur that poverty reduction should be achieved by stimulating high growth led by private investment. To be sustainable, improvement in the welfare of the people should come from expansion in economic opportunities made possible by broad-based growth as envisioned in the CAS. Given the country’s potential, the emphasis on private investment as the engine of growth is very appropriate. The challenge is, therefore, how to create an enabling environment to encourage investment especially FDI.

Third, we are glad to note that this CAS has been prepared through intensive dialogue within the country. The concensus for reform and anti-poverty commitment which resulted from this dialogue should lend credibility to the CAS and the Governments’ reform agenda and ensure their smooth implementation.
Having said that, let me now turn to the observations that I have about the CAS.

First, from the monitorable actions and performance indicators described in Appendix A, I got an impression that the GOM has a really challenging task to do. In spite of the CAS plan to strengthen the public sector, I wonder whether the government has the capacity required to carry out those measures satisfactorily. In this regard, I believe that at this stage improving the institutional capacity especially those agencies that deal directly with poverty alleviation activities such as agriculture, health, education and rural infrastructure development should be given high priority. This is the area where the Partnership for Capacity Building in Africa can play an important role. Moreover, in light of the GOM’s plan to decentralize some activities to local governments beginning in 1997, the question of institutional capacity would be more relevant.

Second, I note with concern that “Madagascar is likely to continue to experience difficulties in meeting debt service payments for a number of years to come.” The debt situation is exacerbated, among others, by the prospect of worsening trade balance in the period of 1996-2000. This necessitates stronger efforts by the GOM to improve the economy’s competitiveness and export performance. However, in my view the CAS does not deal sufficiently with trade issues as well as export enhancement measures. With the history of excessive government control in the economy, I suppose more need to be done in this area to increase the country’s international competitiveness.